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Annual Report 2004

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THE
Great-West Life
ASSURANCE  COMPANY



CORPORATE PROFILE

The Great-West Life Assurance Company (Great-West) is a leading Canadian insurer, with interests in the life insurance, health insurance, investment and retirement savings and reinsurance businesses, primarily in Canada, the United States and Europe.

In Canada, Great-West and its subsidiaries, London Life Insurance Company (London Life) and The Canada Life Assurance Company (Canada life), offer a broad portfolio of financial and benefit plan solutions for individuals, families, businesses and organizations. The companies provide a wide range of retirement savings and income plans; as well as life, disability and critical illness insurance for individuals and families. As a leading provider of employee benefits in Canada, Great-West offers effective benefit solutions for large and small employee groups.

Together, Great-West and its subsidiaries serve the financial security needs of 12 million people across Canada and have more than \$123 billion in assets under administration.

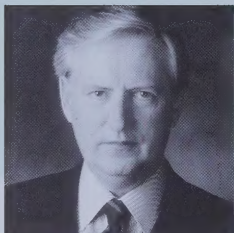
Through Canada Life, the Company has operations in the United Kingdom, Isle of Man, the Republic of Ireland and Germany.

Great-West is a wholly owned subsidiary of Great-West Lifeco Inc., a member of the Power Financial Corporation group of companies.



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Robert Gratton



Raymond L. McFeetors

In 2004, Great-West and its subsidiaries recorded a year of strong growth, despite an intense focus on integrating the operations of Canada Life in Canada and Europe.

For the first time, total net income exceeded \$1 billion in 2004, reflecting overall growth across our lines of business as well as the addition of Canada Life's business for the full year. Net income for participating policyholders before policyholder dividends was \$915 million. During the year, Great-West and our subsidiaries, London Life and Canada Life, paid \$808 million in policyholder dividends, compared with \$666 million in 2003, including Canada Life from the July 10, 2003 date of acquisition. Net income in the participating accounts after dividends was \$107 million, an increase of 10% over 2003.

We take pride in our long history of delivering solid policyholder dividend performance. For 2005, we are pleased to report that we are maintaining the participating policyholder dividend scale for Great-West policyholders.

Including Canada Life business, total premiums and deposits increased by 47% to \$23.7 billion in 2004. Total fee income topped \$1 billion, while total assets under administration increased 7% to over \$123 billion. The growth in assets included strong growth in our segregated funds, which increased 16% during the year.

Integration activities in all our lines of business have proceeded as expected, and we anticipate completing integration of our Canadian and European operations on schedule in 2005. By year end, we had exceeded our synergy targets, and expect to continue to realize synergies into 2005 and beyond.

Great-West continued to replenish its capital position following the Canada Life acquisition. At the end of 2004, Great-West's Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio was 199% compared with 190% in 2003, continuing to exceed regulatory requirements.

CANADA – MIXING TRADITION WITH INNOVATION

The ability of Great-West to generate solid organic growth during a year dominated by integration activities is an indication of the quality of our management, underlying businesses, distribution channels, and our ability to control expenses.

An important factor behind the growth in our ongoing operations is the diversification of our business base, which is a tremendous strength to Great-West and our distribution channels. Traditional insurance products continue to be an important part of our offering, however fee-based products and services form a growing part of our business. These include long-term savings products such as segregated funds, and plans where we provide administrative services on group insurance plans for larger employers. In 2004, over 47% of our premiums and deposits were derived from fee-based products and services.

Our Canadian business units continued this successful formula in 2004, launching several important product and service initiatives that are helping to spur sales and ongoing growth in the Canadian market.

Plan sponsors and members

Great-West's position as the leading provider of employee benefit plans in Canada gives us the scale to offer clients benefit solutions that combine quality service with cost-effective plan management.

For group benefit plan members, we launched our web-based service portal in 2004. *GroupNet™ Online Services for Plan Members* offers employees a range of attractive service options, while reducing overhead administration costs for plan sponsors. The service has been a resounding success, with 4,000 to 5,000 plan members signing up each month. New features to further increase the attractiveness of *GroupNet* for plan members are planned for 2005. As well, we're adding online flexible benefit plan administration for plan sponsors to the *GroupNet* family of web-based services.



We also launched a group critical illness product to meet the growing demand in the marketplace for this relatively new type of coverage.

As well, we introduced *The Ability Partnership*, an innovative approach to managing disability in the workplace that shifts the focus off of disability and onto ability. *The Ability Partnership* guides employers through the spectrum of disability and wellness tools, and helps them identify what will be most effective in their workplace. It marks a refocusing of our disability management services onto the broader goal of supporting workplace health and productivity.

As employers seek to control escalating benefit plan costs, programs such as *The Ability Partnership*, and the smart application of technology to streamline plan administration and claims payment, will play an increasingly important role in the marketplace and our strategy for growth.

As a result of the Canada Life acquisition in 2003, Great-West became the leader in the group creditor insurance business in Canada.

This business, which provides a convenient insurance option for individuals taking out mortgage and other loans from financial institutions, is an important growth opportunity for Great-West. In 2004, we introduced new technology to enhance our administration and service capacity on this business.

The conversion of Canada Life business in 2004 also gave Great-West significant capacity in our newly-developed stock incentive plan business. We now enjoy a competitive advantage, offering leading-edge employee stock incentive capabilities through our employee stock purchase and stock option plans. As well, we implemented a web-based administration system to support this business, and in 2005 will turn our focus to streamlining business processes.

To help plan members make educated decisions about their retirement plan choices, we've entered into an exclusive relationship with Acquaint Financial Inc. to bring them iAcquaint™. iAcquaint is an online resource

that provides plan members with high quality, objective financial education and information. We also enhanced our member education tools to give plan members a cohesive, complete package to help them plan for their financial future.

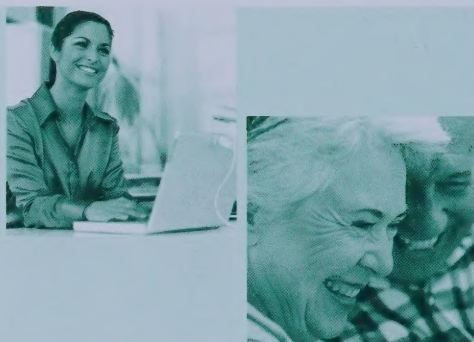
Recent developments in our regulatory environment and investment markets offer opportunities for Great-West, and for our industry. One such opportunity is in the capital accumulation business. In 2005 and beyond, we expect many employers will move from defined benefit plans to offer capital accumulation plans – our core business – instead. In 2004, we were very active in the development and drafting of the first regulatory standards outlining the roles and responsibilities of plan sponsors, plan members and service providers for the capital accumulation business. We believe this positions us well to help our clients meet the new requirements in 2005 and beyond.

Individuals and families

In 2004, we built on our position as a leading provider in two important markets – investment funds and living benefits – to enhance our product and service offerings for individuals and their families.

To better meet the needs of the affluent and established market, we introduced a private wealth counsellor role to assist financial security and investment representatives when working with these clients. In 2005, we plan to increase the competitiveness of our product offerings in this market, including a more price competitive offering in our Managed-Money Program.

We also broadened our fund offering by adding six new investment managers, and introduced enhanced *Solutions Banking™* RRSP loan and investment loan programs, through an agreement with National Bank of Canada to provide clients with a comprehensive range of banking products and services.



We implemented a number of enhancements at Quadrus Investment Services Ltd, our preferred dealer for mutual funds. These included opening Quadrus's consolidated investment plan to non-registered assets in addition to registered holdings. This gives clients the convenience of consolidated quarterly statements, simplified tax reporting and automatic foreign content rebalancing for registered plans. With more than 3,400 registered investment representatives, Quadrus™ is positioned to become one of the major mutual fund distribution organizations in Canada.

Critical illness insurance has experienced increasing interest from clients, as more people become aware of the value it provides. While changes in the critical illness insurance industry prompted us to increase premium rates on our Oasis™ product, we also added a number of enhancements to provide more options for clients than ever before. We have a strong presence in the individual critical illness and disability insurance markets, and will continue to focus on growth in these underdeveloped markets.

Individual life insurance sales declined overall, reflecting an industry-wide shift in product mix in favour of universal life sales and away from participating products. A small increase in universal life sales was offset by a decrease in participating product sales and sales in the rate-sensitive term insurance market.

This mix of traditional insurance businesses and innovative financial products and services allows us to effectively meet the diverse demands of the Canadian marketplace.

Building relationships

A measure of the underlying quality of our business is the trust our clients place in our products and services, as demonstrated by the persistency of their business with us. Our powerful distribution channels play a significant role in the very strong persistency of our business, by providing knowledgeable, professional advice and service to clients. This expertise

and relationship with clients is key to the level of client confidence in our products and services.

We continue to form new alliances that expand both the services we offer clients and the reach of our distribution channels, making it easier than ever for clients and advisors alike to do business with us.

To support these relationships, in 2004 we launched a number of web-based services. These include:

- a secure advisor website, giving financial security advisors better access to the information and tools they need to do business and service their clients. In 2005, we plan to add more functional applications to the site, including access to life, critical illness and disability insurance underwriting requirements,
- new web-based order entry software that is helping financial security advisors easily process new business and manage existing accounts,
- enhancements to Quadrus's already-competitive technology to help investment representatives better serve their clients, and
- a web-based annuity quote system planned for 2005, to make it easier for financial security and investment representatives to process annuity business.

EUROPE – NEW OPPORTUNITIES

The acquisition of Canada Life introduced Great-West to the European market, and increased the scale of our reinsurance operations. We now have insurance and annuity businesses in the United Kingdom, Isle of Man, Republic of Ireland and Germany; and expanded reinsurance business primarily in the United States and Europe.



In 2004, our focus in Europe was on developing the core businesses.

In the United Kingdom, payout annuity sales grew significantly in 2004. Offshore products offered through the Isle of Man operation also performed well, and customer response is growing to a recently launched segregated fund investment product.

In the Republic of Ireland, we continued to focus on wealth management and leveraging the Company's strong presence in the pensions market. In 2004, we became the first company in Germany to respond to taxation changes with a new product suite to brokers. As a result, we are very well positioned in both the pension and protection markets.

We completed a strategic review of our new European operations. In keeping with our focus on core businesses, we completed the sale of certain smaller international operations including the Bahamas and Cayman Islands branches, and the group insurance business in Bermuda. Also during the year, we reached agreements to sell our operation in Brazil, and the balance of our Bermuda business.

In light of continuing challenges in the global reinsurance industry, we will continue to focus our attention on managing exposures on the non-continuing property and casualty portfolio. Supported by a team of professional staff, we expect to continue to benefit from the strength of our long-term client relationships.

BUILDING ON WHAT WE DO BEST

Great-West's acquisition of Canada Life in 2003 was a highly strategic transaction, and a significant one for our company. It positions Great-West very well in the now consolidated Canadian financial services sector and gives us a strong platform for growth in Europe.

Europe represents new market opportunities for us. In particular, we see strong prospects in the group insurance and annuity markets, which are underpenetrated. Canada Life's operations provide the scale and market share, and our extensive experience in the Canadian group insurance and investment funds markets provides the expertise to support long-term growth.

In Canada, we will continue to utilize our multi-channel distribution model. The acquisition of Canada Life gave us access to new complementary distribution channels, such as the managing general agent channel in Canada, which is a significant gain for us. Expanding and diversifying our distribution channels remains a key growth strategy for our organization.

The addition of Canada Life's Canadian group insurance business strengthens our position as the leading provider of employee benefits, particularly in our target small and mid-size case markets. With our extensive distribution capability and low cost operation, we will continue to capitalize on emerging market opportunities.

On behalf of the Board of Directors, we thank our clients for the privilege of continuing to serve them. We thank the staff and sales representatives across our organization for helping us to earn that privilege, through their professionalism and commitment.

Robert Gratton
Chairman of the Board

Raymond L. McFeeters
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis (MD&A) presents management's view of the financial condition, results of operations and cash flows of The Great-West Life Assurance Company (Great-West or the Company) in 2004 compared with 2003. The MD&A provides an overall discussion, followed by analysis of the performance of the Company's business units.

FORWARD-LOOKING INFORMATION

This report may contain forward-looking statements about the Company, including its business operations, strategy and expected financial performance and condition. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects," "anticipates," "intends," "plans," "believes," "estimates" or negative versions thereof and similar expressions. In addition, any statement that may be made concerning future financial performance (including revenues, earnings or growth rates), ongoing business strategies or prospects, and possible future Company action, is also a forward-looking statement.

Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Company, economic factors and the insurance industry generally. They are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied by forward-looking statements made by the Company due to, but not limited to, important factors such as general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government regulations, unexpected judicial or regulatory proceedings, catastrophic events, and the Company's ability to complete strategic transactions and integrate acquisitions.

The reader is cautioned that the foregoing list of important factors is not exhaustive. The reader is also cautioned to consider these and other factors carefully and not place undue reliance on forward-looking statements. Other than as specifically required by applicable law, the Company has no specific intention to update any forward-looking statements whether as a result of new information, future events or otherwise.

NON-GAAP FINANCIAL MEASURES

This report may also contain non-GAAP financial measures. Terms by which non-GAAP financial measures are identified include but are not limited to "adjusted net income", "earnings before restructuring costs", "net income before restructuring costs" and other similar expressions. Non-GAAP financial measures are used to provide management and investors with additional measures of performance. However, non-GAAP financial measures do not have standard meanings prescribed by GAAP and are not directly comparable to similar measures used by other companies. Please refer to the appropriate reconciliations of these non-GAAP financial measures to measures prescribed by GAAP.

SEGREGATED FUNDS DEPOSITS AND ASO PREMIUM EQUIVALENTS (ASO CONTRACTS)

The financial statements of a life insurance company do not include the assets, liabilities, deposits and withdrawals of segregated funds or the claims payments related to administrative services only (ASO) group health contracts. However, the Company does earn fee and other income related to these contracts. Both segregated fund and ASO contracts are an important aspect of the overall business of the Company and should be considered when comparing volumes, size and trends.

BASIS OF PRESENTATION AND SUMMARY OF ACCOUNTING POLICIES

The consolidated financial statements of Great-West, which are the basis for data presented in this report, have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and presented in Canadian dollars unless otherwise indicated.

TRANSLATION OF FOREIGN CURRENCY

The Company and its major operating subsidiaries conduct business in multiple currencies. The four primary currencies are the Canadian dollar, the United States dollar, the British pound and the euro. Throughout this document, foreign currency assets and liabilities are translated into Canadian dollars at the market rate at the end of the financial period. All income and expense items are translated at an average rate for the period. The rates employed are:

Years ended December 31	Balance sheet		Operations
	Assets & liabilities		Income & expenses
United States dollar			
2004	\$	1.20	\$ 1.30
2003	\$	1.29	\$ 1.40
British pound			
2004	\$	2.31	\$ 2.38
2003	\$	2.31	\$ 2.29
Euro			
2004	\$	1.63	\$ 1.62
2003	\$	1.63	\$ 1.58

The net effective rate for the translation of British pound was \$2.3238 for 2004 which reflects the net effect of translation of foreign currency denominated income and expenses at the average daily rate for the period together with realized gains and losses associated with forward foreign exchange contracts used to manage the translation volatility – see note 18(c) of the Company's 2004 Consolidated Financial Statements.

CANADA LIFE FINANCIAL CORPORATION ACQUISITION

The financial condition, results of operations and cash flows include the acquisition of Canada Life Financial Corporation (CLFC), from the July 10, 2003 date of acquisition.

Great-West Lifeco Inc. (Lifeco) acquired all outstanding common shares of CLFC that it did not already beneficially own, for an aggregate transaction value of \$7.2 billion. Lifeco immediately transferred the common shares of CLFC to its Canadian subsidiary, Great-West. CLFC, and its wholly-owned operating subsidiary, The Canada Life Assurance Company (Canada Life), are now subsidiaries of Great-West.

At the outset of the acquisition, the Company set a synergy target of \$210 million for Canadian operations. In the fourth quarter of 2003, the Company identified another \$40 million in potential synergies for the European operations for total annualized synergies of \$250 million. At December 31, 2004, the Company achieved annualized synergies of \$236 million in Canada and \$51 million in its European operations or 115% of the total target.

Following the acquisition of CLFC the Company developed a plan to restructure and exit selected operations of CLFC. These restructuring activities and associated costs are described more fully in note 3 of the Great-West Financial Statements.

BUSINESSES OF GREAT-WEST

Through Great-West and its subsidiaries, London Life Insurance Company (London Life) and Canada Life, a broad portfolio of financial and benefit plan solutions for individuals, families, businesses and organizations, is offered through a network of *Freedom 55 Financial™* and Great-West financial security advisors, and through a multi-channel network of brokers, advisors and financial institutions.

In Europe, Canada Life is broadly organized along geographically defined market segments and offers a wide range of protection and wealth management products and reinsurance. Europe/Reinsurance is comprised of two distinct business units: Insurance & Annuities, which consists of operations in the United Kingdom, Isle of Man, Republic of Ireland and Germany; and Reinsurance, which operates primarily in the United States and Europe. Reinsurance products are provided through Canada Life, London Reinsurance Group (LRG) and their subsidiaries.

TRANSACTIONS WITH RELATED PARTIES

Refer to note 16 of the Company's 2004 Consolidated Financial Statements.

CONSOLIDATED OPERATING RESULTS

Selected Consolidated Financial Information (in \$ millions except per share amounts)

	2004	2003	% Change
For the years ended December 31			
Premiums:			
Life insurance, guaranteed annuities and insured health products	\$ 12,543	\$ 9,937	26%
Self-funded premium equivalents (ASO contracts)	1,863	1,675	11%
Segregated funds deposits:			
Individual products	5,270	2,768	90%
Group products	4,064	1,808	125%
Total premiums and deposits	23,740	16,188	47%
Bulk reinsurance – initial ceded premiums ⁽¹⁾	–	(6,279)	–
Net premiums and deposits	23,740	9,909	140%
Fee and other income	1,084	660	64%
Paid or credited to policyholders ⁽¹⁾	13,234	4,567	190%
Summary of net income attributable to:			
Participating policyholder	107	97	10%
Preferred shareholder	11	11	0%
Net income common shareholder before restructuring costs	1,136	728	56%
Restructuring costs ⁽²⁾	28	16	75%
Net income common shareholder	1,108	712	56%

Per Common Share

Net earnings before restructuring costs	\$ 558.80	\$ 450.52	24%
Restructuring costs after tax ⁽²⁾	13.90	9.82	42%
Net earnings	544.90	440.70	24%
Dividends paid – regular	227.87	199.70	14%
– special	–	–	–
Book value	3,958.00	3,616.00	9%

At December 31

Total assets	\$ 71,107	\$ 70,735	1%
Segregated funds assets	52,214	44,874	16%
Total assets under administration	\$ 123,321	\$ 115,609	7%
Participating policyholder equity	\$ 1,458	\$ 1,380	6%
Shareholder equity	8,362	7,544	11%
Total policyholder and shareholder equity	\$ 9,820	\$ 8,924	10%

(1) (i) During 2003, as part of a risk rebalancing program related to the acquisition of CLFC, a number of bulk reinsurance ceded contracts were executed by Great-West with third parties on a funds with-held basis. Premiums related to the initial cession of in force business were \$2,716 million.

(ii) During 2003, a reinsurance agreement was executed between CLFC and Great-West Life & Annuity Insurance Company (GWL&A) whereby GWL&A reinsured 80% of the individual and group policy liabilities of CLFC's US branch. Premiums related to the initial cession of this business were \$3,563 million.

(2) Following the acquisition of CLFC by the Company's parent, Great-West Lifeco Inc., a plan was developed to restructure and exit selected operations of CLFC (see note 3 in the Company's financial statements). The costs include \$350 that was recognized as part of the purchase equation of CLFC, and \$89 to be charged to income as incurred. Net income and basic earnings per common share are presented before restructuring as a measure of earnings performance, excluding restructuring charges related to the acquisition of CLFC, and incurred during the period.

QUARTERLY FINANCIAL INFORMATION

Quarterly financial information (in \$ millions except per share amounts)

		Net income							
		Participating policyholder				Common shareholders		Adjusted net income common shareholders ⁽³⁾	
		Total revenue	Net income before policyholder dividends	Policyholder dividends	Net (undistributed) Income ⁽²⁾	Net income	Earnings per common share	Net income	Per common share
2004	Fourth quarter	\$ 4,620	\$ 291	\$ 211	\$ 80	\$ 288	\$ 140.12	\$ 301	\$ 146.96
	Third quarter	3,706	212	200	12	286	141.36	289	142.66
	Second quarter	4,701	200	199	1	281	139.12	286	141.63
	First quarter	4,326	212	198	14	253	124.30	260	127.55
2003	Fourth quarter	\$ 4,355	\$ 218	\$ 180	\$ 38	\$ 243	\$ 122.97	\$ 250	\$ 126.36
	Bulk reinsurance	77 ⁽¹⁾							
	Net	4,432							
	Third quarter	3,650	207	176	31	209	107.15	218	113.58
	Bulk reinsurance	(6,356) ⁽¹⁾							
	Net	(2,706)							
	Second quarter	2,819	180	157	23	135	109.48	N/A	N/A
	First quarter	2,985	158	153	5	125	101.10	N/A	N/A

(1) (a) During the third quarter of 2003, as part of a risk rebalancing program related to the acquisition of CLFC, a number of bulk reinsurance ceded contracts were executed by Great-West with third parties. Premiums related to the initial cession of in force policy business were \$2,716 million.

(b) During the third quarter of 2003, a reinsurance agreement was executed between CLFC and Great-West Life & Annuity Insurance Company (GWL&A) whereby GWL&A reinsured 80% of the individual and group policy liabilities of CLFC's US branch. Premiums related to the initial cession of this business were \$3,640 million.

(c) Fourth quarter 2003 activity reflects in-quarter change of \$77 million in US\$ translation rates.

(2) Net (undistributed) income for participating policyholder represents the in-year earnings for the account(s) after dividend distributions.

(3) Restructuring costs after-tax related to the acquisition of CLFC:

		Restructuring costs	Per common share			Restructuring costs	Per common share
2004	Fourth quarter	\$ 13	\$ 6.84	2003	Fourth quarter	\$ 7	\$ 3.39
	Third quarter	3	1.30		Third quarter	9	6.43
	Second quarter	5	2.51				
	First quarter	7	3.25				

Summary of Quarterly Results

The Company's net income attributable to the common shareholder, before restructuring costs related to the acquisition of CLFC, was \$301 million for the fourth quarter of 2004, compared to \$250 million reported a year ago, an increase of 20%. On a per share basis, this represents \$146.96 per common share for the fourth quarter of 2004 compared to \$126.36 per common share a year ago.

Net income, after restructuring costs, attributable to the common shareholder for the quarter was \$288 million or \$140.12 per common share, compared to \$243 million or \$122.97 per common share in 2003. The improvement is attributable to all of the Company's business units.

Group – For the fourth quarter, net income attributable to the common shareholder increased to \$64 million compared to \$45 million in 2003.

Individual Insurance & Investment Products – For the fourth quarter, net income attributable to the common shareholder increased to \$116 million compared to \$98 million in 2003.

Europe/Reinsurance – For the fourth quarter, net income attributable to the common shareholder was \$111 million, compared to \$90 million in 2003.

Corporate – For the fourth quarter, net income attributable to the common shareholder was a charge of \$3 million, compared to a charge of \$10 million in 2003. These charges consist primarily of restructuring costs related to the CLFC acquisition.

Total revenue for the fourth quarter of 2004 was \$4,620 million and was composed of premium income of \$3,332 million, net

investment income of \$980 million and fee and other income of \$308 million. Total revenue for the fourth quarter of 2003 was \$4,355 million, excluding the effect of bulk reinsurance contracts entered into in 2003 by the Company in connection with the acquisition of CLFC. It was comprised of premium income of \$3,111 million, net investment income of \$1,012 million and fee and other income of \$232 million.

Selected annual information (in \$ millions, except per share amounts)

Years ended December 31	2004	2003	2002
Total revenue	\$ 17,353	\$ 13,809	\$ 10,766
Bulk reinsurance	–	(6,279)	–
Net	17,353	7,530	10,766
Net income – common shareholder			
Basic adjusted	\$ 558.80	\$ 450.52	\$ 376.97
Basic and diluted	544.90	440.70	376.97
Total assets			
General fund assets	\$ 71,107	\$ 70,735	\$ 36,054
Segregated funds assets	52,214	44,874	18,504
Total assets under administration	123,321	\$ 115,609	\$ 54,558
Total liabilities	\$ 60,277	\$ 60,984	\$ 31,994
Dividends paid per share			
Preferred Series L	\$ 1.30	\$ 1.30	\$ 1.30
Preferred Series N	–	–	1.04
Preferred Series O	1.3875	1.3875	1.3875
Preferred Series Q	1.25	1.25	–
Common – Regular	227.87	199.70	248.14
– Special	–	–	30.71

OVERVIEW – 12 MONTHS ENDED DECEMBER 31, 2004

The results for 2004 include the effects of the CLFC acquisition, which closed on July 10, 2003. The comparative figures for 2003 include the results of CLFC from July 10 to December 31, 2003.

In the third quarter of 2003, the U.S. operations of CLFC were reorganized and, as a result, 80% of the individual and group businesses operated by the Company's U.S. branch were reinsured to Great-West Life & Annuity Insurance Company (GWL&A), a U.S. subsidiary of Lifeco. Premiums related to the initial cession of this business were \$3,563 million. In addition, the Group Insurance and Individual Insurance and Investment Products business units of Great-West and London Life entered into a bulk reinsurance agreement with a third-party reinsurer effective July 1, 2003. Premiums related to the initial cession of this business were \$2,716 million.

Total revenue for 2004 was \$17,353 million compared to \$13,809 million in 2003, excluding the impact of the bulk reinsurance transactions in 2003. Total revenue was comprised of premium income of \$12,543 million (2003 – \$9,937 million), net investment income of \$3,726 million (2003 – \$3,212 million) and fee and other income of \$1,084 million (2003 – \$660 million).

Net income attributable to the common shareholder for 2004 was \$1,108 million compared to \$712 million in 2003. The increase in net income reflects both the effects of the CLFC acquisition as well as growth in the underlying core businesses. Results include restructuring costs of \$28 million (2003 – \$16 million) after-tax.

Net Income

Great-West's net income for 2004 was \$1,226 million, compared to \$820 million for 2003. Net income attributable to the common shareholder, excluding restructuring costs related to the acquisition of CLFC, was \$1,136 million or \$558.80 per share, compared to \$728 million or \$450.52 per share for 2003. Net income after restructuring costs, attributable to the common shareholder for 2004 was \$1,108 million or \$544.90 per common share.

Net income in 2004 reflected a full year of CLFC results as compared to two quarters in 2003. The individual and group annuity and group creditor insurance business lines and the Europe/Reinsurance business unit showed particular strength in 2004.

Net Income – common shareholder Years ended December 31 (in \$ millions)

	2004	2003
Net income before restructuring costs	\$ 1,136	\$ 728
Restructuring costs	28	16
Net income common shareholder	\$ 1,108	\$ 712
Earnings per common share (after restructuring costs)	\$ 544.90	\$ 440.70
Average # of shares outstanding	2,033,315	1,616,057

Net Income by segment Years ended December 31 (in \$ millions)

	2004	2003	% Change
Attributable to			
Participating Policyholder			
Net income before			
policyholder dividends	\$ 915	\$ 763	20%
Policyholder dividends	808	666	21%
Total	\$ 107	\$ 97	10%
Attributable to Shareholder			
Preferred shareholder dividend	\$ 11	\$ 11	0%
Common shareholder			
Group insurance	\$ 253	\$ 194	30%
Individual insurance & investment products	462	308	50%
Europe/Reinsurance	356	148	141%
Corporate	65	78	-17%
Sub-total	1,136	728	56%
Restructuring costs	(28)	(16)	75%
Total common shareholder	\$ 1,108	\$ 712	56%
Total net income	\$ 1,226	\$ 820	50%

In terms of major business units, in addition to the inclusion of the earnings of CLFC, the 2004 results reflect the following:

Participating Policyholder

Net income attributable to participating policyholder before policyholder dividends was \$915 million compared with \$763 million in 2003. The 2004 results were influenced by favourable mortality and improved equity investment returns. Policyholder dividends were 21% higher in 2004 than 2003, resulting in a net undistributed income result for the participating account of \$107 million compared with \$97 million last year.

Common Shareholder

Group Insurance – The increase reflects favourable mortality experience in all product lines and improved health care costs, mitigated somewhat by long-term disability experience.

Individual Insurance & Investment Products – The increase is essentially attributable to favourable mortality and morbidity experience, together with effective expense management.

Corporate – The change is due primarily to the gain on sale in 2003 of Lifestyle Retirement Communities (\$17 million, after tax).

Bulk Reinsurance

(a) The Group Insurance and Individual Insurance business units of Great-West and London Life entered into a bulk reinsurance agreement during the third quarter of 2003 with a third-party reinsurer to cede a portion of direct written individual life and group life and health business. This agreement was effective July 1, 2003 and initial premiums related to the initial cession of in force business were \$2,716 million.

(b) During the third quarter of 2003, a reinsurance agreement was executed between CLFC and GWL&A, whereby GWL&A reinsured 80% of the individual and group policy liabilities of CLFC's U.S. branch. Premiums related to the initial cession of this business were \$3,563 million. Invested assets of approximately \$1.8 billion were transferred to GWL&A for the coinsurance arrangement and a liability of approximately \$1.8 billion established as part of funds held under reinsurance contracts was established for the invested assets the Company continues to hold under the modified coinsurance arrangements.

Bulk reinsurance – 2003 (in \$ millions)

	Shareholder		Total	Participating	Total company
	Group insurance	Corporate			
Premium income					
Reinsurance agreement (a)	\$ (2,716)	\$ –	\$ (2,716)	\$ –	\$ (2,716)
Reinsurance agreement (b)	–	(2,566)	(2,566)	(997)	(3,563)
Total	(2,716)	(2,566)	(5,282)	(997)	(6,279)
Paid or credited to policyholders					
Reinsurance agreement (a)	\$ (2,716)	\$ –	\$ (2,716)	\$ –	\$ (2,716)
Reinsurance agreement (b)	–	(2,566)	(2,566)	(997)	(3,563)
Total	(2,716)	(2,566)	(5,282)	(997)	(6,279)
Net income	\$ –	\$ –	\$ –	\$ –	\$ –

Premiums and Deposits and Sales

Total premiums and deposits for 2004 increased \$7,552 million, compared to 2003. The 2004 results include the premiums and deposits on the Canada Life business, which affected all of the Company's main lines.

Premiums and deposits were \$23,740 million in total, \$12,543 million of risk-based product premiums, \$1,863 million of self-funded premium equivalents, and \$9,334 million of segregated funds deposits.

For 2004, 92% of premium income is from fee based products, with the remainder derived from traditional risk based products.

Total sales for 2004 were up 38% overall from 2003 levels. The increase in sales from 2003 was due to the inclusion of CLFC results for an additional six months and a strong year in Individual Retirement and Investment Services sales.

Premiums and deposits and sales Years ended December 31 (in \$ millions)

	Premiums and deposits			Sales ⁽¹⁾		
	2004	2003	% Change	2004	2003	% Change
Business/Product						
Group insurance	\$ 4,395	\$ 4,103	7%	\$ 374	\$ 323	16%
Individual insurance						
Life insurance – participating	1,751	1,597	10%	75	80	-6%
– non-participating	454	345	32%	76	60	27%
Living benefits	212	153	39%	47	34	38%
Retirement & investment services						
Individual products	2,485	1,777	40%	3,330	2,393	39%
Group products	5,237	2,079	152%	979	825	19%
Europe/Reinsurance						
Insurance & annuities	5,582	2,127	162%	4,028	1,653	144%
Reinsurance	3,616	3,689	-2%	3,399	3,532	-4%
Corporate (U.S. Branch)						
– participating	37	37	0%	–	–	–
– non-participating	(29)	281	-110%	–	–	–
Total premiums and deposits	\$ 23,740	\$ 16,188	47%	\$ 12,308	\$ 8,900	38%
Bulk reinsurance – initial ceded premiums	–	(6,279)	–			
Net premiums and deposits	\$ 23,740	\$ 9,909	140%			
Summary by Type						
Risk-based products	\$ 12,543	\$ 9,937	26%			
ASO contracts	1,863	1,675	11%			
Segregated funds deposits: – individual products	5,270	2,768	90%			
– group products	4,064	1,808	125%			
Total premiums and deposits	\$ 23,740	\$ 16,188	47%			
Bulk reinsurance – initial ceded premiums	–	(6,279)	–			
Net premiums and deposits	\$ 23,740	\$ 9,909	140%			

(1) Excludes Quadrus mutual funds sales.

Net Investment Income

Net investment income Years ended December 31 (in \$ millions)

	2004	2003	% Change
Investment income	\$ 3,348	\$ 3,004	11%
Amortization of gains and losses	418	277	51%
Provision for credit losses	5	(10)	-150%
Gross investment income	3,771	3,271	15%
Less: investment expenses	45	59	-24%
Net investment income	\$ 3,726	\$ 3,212	16%

Net investment income for 2004 increased \$514 million or 16% over 2003, primarily as a result of the inclusion of an additional \$445 million of CLFC income over the prior year. This was offset by a non-recurring gain on sale of Lifestyle Retirement Communities in the third quarter of 2003, and the reduction of investment income resulting from the commutation of certain reinsurance contracts in 2004.

Fee income

In addition to providing traditional risk-based insurance products, the Company also provides certain products on a fee-for-service basis. The most significant of these products is segregated funds, for which the Company earns investment management fees, and ASO contracts, under which the Company provides group insurance benefit plan administration on a cost-plus basis.

Fee income Years ended December 31 (in \$ millions)

	2004	2003	% Change
Segregated funds and other	\$ 970	\$ 562	73%
ASO contracts	114	98	16%
	\$ 1,084	\$ 660	64%

Fee income on segregated funds and other increased from \$562 million in 2003 to \$970 million in 2004, reflecting the inclusion of Canada Life for an additional two quarters, as well as strong growth in fees from new and existing business reflecting improved equity market conditions. Fee income on ASO increased from \$98 million in 2003 to \$114 million in 2004, reflecting the inclusion of Canada Life for an additional two quarters, as well as growth in the block of business.

Paid or Credited to Policyholders

This amount includes increases in policy liabilities, claims, surrenders, annuity and maturity payments, dividend and

experience refund payments for risk-based products, but does not include payment amounts for fee-based products (ASO contracts and segregated funds).

The initial ceded premiums of \$2.7 billion associated with the bulk reinsurance transaction that resulted in a reduction of premium income and a corresponding reduction in amounts paid or credited to policyholders.

In aggregate, \$13.2 billion was paid or credited to policyholders in 2004, including benefits paid or credited to policyholders of CLFC. This compares with \$4.6 billion in 2003 after a reduction of \$2.7 billion associated with the bulk reinsurance transaction and \$3.6 billion associated with the initial cession of individual and group policy liabilities from the CLFC U.S. branch to GWL&A.

Other

Included in other benefits and expenses are operating expenses, commission payments, as well as premium taxes.

Other Years ended December 31 (in \$ millions)

	2004	2003	% Change
Total expenses	\$ 1,335	\$ 1,082	23%
Less: investment expenses	45	59	-24%
Operating expenses	1,290	1,023	26%
Commissions	1,022	663	54%
Premium taxes	209	112	87%
Total	\$ 2,521	\$ 1,798	40%

Operating expenses for 2004 increased \$267 million when compared to 2003. The inclusion of CLFC expenses in 2004 was \$572 million for operating expenses compared with \$375 million in 2003, commission payments of \$403 million (\$214 in 2003), and premium taxes of \$91 million (\$34 in 2003).

Income Taxes

Income taxes for 2004 were \$264 million compared to \$270 million for 2003.

The decrease in income taxes reflects the recognition of favorable tax experience during the period. Tax planning may allow the Company to record lower income taxes in the current period and, as well, income taxes recorded in prior periods may be adjusted in the current period to reflect management's best estimates of the overall adequacy of its provisions. Management monitors the status of its income tax filings, and regularly assesses the overall adequacy of its provision for income taxes.

CONSOLIDATED FINANCIAL POSITION

Consolidated total assets December 31 (in \$ millions)

	2004			2003		
	Shareholder	Participating	Total	Shareholder	Participating	Total
Assets						
Invested assets	\$ 37,695	\$ 22,312	\$ 60,007	\$ 36,217	\$ 21,604	\$ 57,821
Goodwill and intangible assets	6,756	—	6,756	6,582	—	6,582
Other general fund assets	3,840	504	4,344	5,592	740	6,332
Total general fund assets	\$ 48,291	\$ 22,816	\$ 71,107	\$ 48,391	\$ 22,344	\$ 70,735
Segregated funds assets			52,214			44,874
Total assets under administration			\$ 123,321			\$ 115,609

Management's Discussion and Analysis

Total assets under administration at December 31, 2004 were \$123.3 billion, an increase of \$7.7 billion from December 31, 2003. General fund assets increased by \$0.4 billion and segregated funds assets increased by \$7.3 billion compared with December 31, 2003. Goodwill and intangible assets increased by \$174 million from December 31, 2003. Refer to note 6 of the Great-West Financial Statements.

Invested assets

The Company manages its general fund assets to support the cash flow, liquidity and profitability requirements of the Company's insurance and investment products. The Company follows prudent and conservative investment policies, so that assets are not unduly exposed to concentration, credit or market risks. The Investment Division implements strategies within the overall framework of the Company's policies, reviewing and adjusting them on an ongoing basis in light of liability cash flows and capital market conditions. The majority of investments of the general fund are in medium-term and long-term fixed-income investments, primarily bonds and mortgages, reflecting the characteristics of the Company's liabilities.

Invested assets at December 31, 2004 were \$60.0 billion, an increase of \$2.2 billion or 3.8% from December 31, 2003. The distribution of assets has not changed materially and remains heavily weighted to bonds and mortgages.

Asset distribution December 31 (in \$ millions)

	2004		2003	
Government bonds	\$ 16,012	27%	\$ 16,241	28%
Corporate bonds	22,665	38	20,701	36
Mortgages	12,688	21	12,686	22
Stocks	2,682	4	2,665	5
Real estate	1,496	2	1,433	2
Sub-total portfolio investments	55,543		53,726	
Cash & certificates of deposit	2,222	4	1,901	3
Policy loans	2,242	4	2,194	4
Total invested assets	\$ 60,007	100%	\$ 57,821	100%

Bond portfolio

The total bond portfolio increased to \$38.7 billion or 65% of invested assets at December 31, 2004, from \$36.9 billion or 64% of invested assets at December 31, 2003. Federal, provincial and other government securities represented 41% of the bond portfolio, down from 44% in 2003. The overall quality of the bond portfolio remained high, with 99% of the portfolio rated investment grade and 86% rated A or higher. The excess of fair value over carrying value at December 31, 2004 was \$1,718 million (\$968 million for 2003).

Non-performing loans December 31 (in \$ millions)

Asset Class	2004			2003		
	Bonds	Mortgages	Total	Bonds	Mortgages	Total
Non-performing loans	\$ 91	\$ 13	\$ 104	\$ 200	\$ 4	\$ 204

Allowances for credit losses December 31 (in \$ millions)

	2004			2003		
	Specific provisions	General provisions	Total	Specific provisions	General provisions	Total
Bonds and mortgage loans	\$ 80	\$ 44	\$ 124	\$ 110	\$ 13	\$ 123

Bond portfolio quality December 31 (in \$ millions)

(excludes \$1,645 million short-term investments, \$1,600 million in 2003)

	2004		2003	
Estimated Rating				
AAA	\$ 15,218	41%	\$ 14,122	40%
AA	6,143	17	5,557	16
A	10,379	28	10,044	28
BBB	4,957	13	4,911	14
BB or lower	335	1	708	2
Total	\$ 37,032	100%	\$ 35,342	100%

Mortgage portfolio

The total mortgage portfolio remained unchanged at \$12.7 billion or 21% of invested assets at December 31, 2004. The mortgage portfolio consisted of 50% commercial loans, 37% multi-family residential loans and 13% single family residential loans. Total insured loans were \$4.5 billion or 35% of the mortgage portfolio. The excess of fair value over carrying value at December 31, 2004 was \$648 million (\$555 million for 2003).

Equity portfolio

The Company's total equity portfolio remained relatively unchanged at \$4.2 billion or 6% at December 31, 2004. The equity portfolio consists primarily of high quality, publicly traded stocks and institutional-grade income producing real estate located in major economic centers. The excess of fair value over carrying value at December 31, 2004 was \$577 million (\$384 million for 2003).

Asset quality – general fund assets

Non-investment grade bonds were \$335 million or 0.9% of the portfolio at December 31, 2004, compared with \$708 million or 2.0% of the portfolio at December 31, 2003. The decrease is primarily due to dispositions and upgrades in the ratings of issuers that are held in the portfolio.

Non-performing investments, including bonds in default, mortgages in the process of foreclosure or in arrears 90 days or more, and real estate acquired by foreclosure, totaled \$104 million or 0.19% of portfolio investments at December 31, 2004, compared with \$204 million or 0.38% at December 31, 2003.

The Company's allowance for credit losses at December 31, 2004, for non-performing assets and non-investment grade bonds, was \$124 million compared with \$123 million at year-end 2003. Additional provisions for future credit losses on assets backing liabilities are included in actuarial liabilities and amount to \$838 million at December 31, 2004 (\$771 million at December 31, 2003).

The combination of the allowance for credit losses of \$124 million, together with the \$838 million provision for future credit losses in actuarial liabilities represents 1.82% of bond, mortgage and real estate assets at December 31, 2004 (1.75% at December 31, 2003).

Fair value

The fair value of invested assets exceeded their carrying value by \$2.9 billion as at December 31, 2004, compared to \$1.9 billion in 2003. The change in the excess of fair value compared to carrying value period over period reflects the impact of lower interest rates on fixed income assets and stronger equity markets. Changes in the fair value of assets supporting the actuarial and other liabilities of the Company's operating funds generally will not result in a corresponding change in net income due to corresponding changes in the fair value of actuarial and other liabilities that are matched with those assets. However, the excess of fair value over carrying value on assets supporting shareholder equity and subordinated debentures, as well as the net deferred realized gains, will in time be amortized to net income.

Other general fund assets December 31 (in \$ millions)

	2004	2003
Funds held by ceding insurers	\$ 2,337	\$ 4,142
Other assets	2,007	2,190
Total other general fund assets	\$ 4,344	\$ 6,332

Other general fund assets

Funds held by ceding insurers decreased \$1.8 billion. The decrease reflects the nature of reinsurance contracts written and results in a related decrease in policy liabilities.

Other assets, at \$2.0 billion, is comprised of several items including premiums in course of collection, interest due and accrued, fixed assets, prepaid amounts, and accounts receivable.

Segregated funds

The Investment Division and the Company's investment subsidiaries – GWL Investment Management Ltd., London Life Investment Management Ltd., GWL Realty Advisors Inc., Laketon Investment Management Ltd., and Setanta Investment Management Limited – are the investment managers for the Company's segregated funds.

Segregated funds under management, which are measured at market value, increased by \$7.3 billion to \$52.2 billion at December 31, 2004. During 2004, \$1.5 billion of Canada Life Securities Inc. trustee assets were converted to segregated funds administered under insured contracts. The remaining growth resulted from net deposits of \$2.5 billion, as well as market value gains of \$3.3 billion.

Segregated funds assets December 31 (in \$ millions)

	2004	2003	2002
Stocks	\$ 34,889	\$ 30,872	\$ 10,521
Bonds	9,306	7,731	4,132
Mortgages	1,613	1,466	1,349
Real estate	3,423	3,119	2,022
Cash and other	2,983	1,686	480
Total	\$ 52,214	\$ 44,874	\$ 18,504

Outlook – investment

The Company's investment portfolio is broadly diversified and encompasses strategies to generate appropriate asset mixes and returns relative to the terms and characteristics of the Company's liabilities. The majority of the investment program for the general fund will continue to be in medium to long-term fixed income instruments, primarily bonds and mortgages. Investments in equity markets and other asset classes will continue to be reviewed as risk-adjusted market opportunities arise.

In addition to managing the general fund of the company, the Investment Division and its investment subsidiaries remain closely aligned with the Company's segregated funds and third-party asset management lines of business, and will continue to develop its infrastructure to deliver superior service to clients.

Liabilities

Total liabilities

Total liabilities at December 31, 2004 were \$60.3 billion, a decrease of 1% from December 31, 2003.

Total liabilities December 31 (in \$ millions)

	2004	2003
Policy liabilities	\$ 49,662	\$ 49,532
Net deferred gains on portfolio investments sold	2,019	2,098
Other general fund liabilities	8,596	9,354
Total liabilities	\$ 60,277	\$ 60,984

Policy liabilities

Policy liabilities increased \$130 million and represent 82.4% of total liabilities. Refer to note 8 of the Great-West Financial Statements for more detail.

Actuarial liabilities represent the amounts which, together with estimated future premiums and investment income, will be sufficient to pay estimated future benefits, dividends, and expenses on policies in force. Actuarial liabilities are determined using generally accepted actuarial practices, according to standards established by the Canadian Institute of Actuaries.

Asset and liability cash flows are carefully matched to minimize the financial effects of a shift in interest rates. This practice has been in effect for several years and has shielded the Company's financial position from past significant interest rate volatility.

Other general fund liabilities

Total other general fund liabilities at December 31, 2004 were \$8.6 billion, a decrease of \$0.8 billion from December 31, 2003. Other liabilities, at \$3.4 billion, which decreased \$0.3 billion from December 31, 2003, and includes accounts payable current and future income tax liabilities, provisions for post-retirement benefits as well as temporary transaction related liabilities (see note 10 in Great-West financial statements).

Other general fund liabilities December 31 (in \$ millions)

	2004	2003
Debentures and other borrowings	\$ 815	\$ 1,030
Funds held under reinsurance contracts	4,364	4,592
Other liabilities	3,417	3,732
Total other general fund liabilities	\$ 8,596	\$ 9,354

Debentures and other borrowings include \$785 million of long-term debt on both a direct basis and through CLFC.

Non-Controlling Interests

Refer to note 11 of the Great-West financial statements.

In addition to participating policyholder undistributed surplus and preferred shareholders of subsidiaries, the Company has a total of \$800 million of capital securities/trust units issued in Canada by Great-West Life Capital Trust and Canada Life Capital Trust. At December 31, 2004, the Company and its subsidiaries held \$186 million of these securities as temporary investments. The carrying value of units held by external parties was \$651 million. During 2004, the Company repaid \$200 million principal amount of 6.75% debentures due to Lifeco (see note 9 of Great-West financial statements).

Policyholder And Shareholder Equity

Outstanding Share Data – refer to note 13 of the Great-West financial statements.

2004 activity

During 2004, the Company paid dividends of \$227.87 per common share for a total of \$464 million and preferred share dividends of \$11 million.

The appreciation of the Canadian dollar against the U.S. dollar, somewhat offset by the depreciation against the British pound and the euro in 2004 resulted in decreases to the currency translation account by \$60 million since December 31, 2003: \$53 million in the shareholder account, and \$7 million in the participating account.

These activities, coupled with strong earnings from operations, resulted in total policyholder and shareholder equity of \$9.8 billion at December 31, 2004, an increase of \$0.9 billion since December 31, 2003.

LIQUIDITY AND CAPITAL MANAGEMENT AND ADEQUACY

Liquidity

The Company uses a number of techniques to manage liquidity in the general fund. Products are designed to improve the predictability of their liability cash flows and to reduce the risk of disintermediation. Assets are acquired to provide cash flows that match the requirements of liabilities. The Company's operations have liquidity requirements that vary among its principal product lines. Life insurance and pension plan reserves are primarily long-term liabilities. Group reserves in Canada and Europe, including long-term disability, consist of both short-term and long-term liabilities. Life insurance and pension plan reserve requirements are usually stable and predictable, and are supported primarily by long-term, fixed income investments. Group costs are stable and predictable but generally shorter term, requiring greater liquidity.

Generally, the Company meets its operating requirements by maintaining appropriate levels of liquidity in its investment portfolio and utilizing positive cash flows from operations. Liquidity for the Company has remained strong, as evidenced by significant amounts of short-term investments, cash and highly marketable securities including investment grade bonds that totaled \$37.8 billion and \$35.3 billion as of December 31, 2004 and 2003, respectively. As of both December 31, 2004 and 2003, 99% of the bond portfolio carried an investment grade rating, thereby providing significant liquidity to the Company's overall investment portfolio.

Funds provided by premiums and fees, investment income and maturities of investment assets are reasonably predictable and normally exceed liquidity requirements for payment of claims, benefits, and expenses. However, since the timing of available funds cannot always be matched precisely to commitments, imbalances may arise when demands for funds exceed those on hand. Also, a demand for funds may arise as a result of the Company taking advantage of current investment opportunities. The sources of the funds that may be required in such situations include the issuance of debentures and equity securities.

Liquid assets December 31 (in \$ millions)

	2004		2003	
	Balance sheet value	Market value	Balance sheet value	Market value
Cash & certificates of deposit	\$ 2,195	\$ 2,195	\$ 1,856	\$ 1,856
Highly marketable securities				
Government bonds	15,863	16,605	16,026	16,266
Corporate bonds	16,606	17,129	14,157	14,748
Common/Preferred shares	2,379	2,763	2,320	2,550
Residential mortgages (insured)	791	809	905	916
Total	\$ 37,834	\$ 39,501	\$ 35,264	\$ 36,336

Cashable liability characteristics December 31 (in \$ millions)

	2004	2003
Surrenderable insurance and annuity liabilities		
At market value	\$ 5,783	\$ 5,603
At book value	19,694	18,284
Total	\$ 25,477	\$ 23,887

The market value of the Company's liquid assets is approximately \$39.5 billion or 155% of the total surrenderable insurance and annuity liabilities. The Company believes that it holds a sufficient amount of liquid assets to meet unanticipated cash flow requirements prior to their maturity.

Cash flows

Cash flows December 31 (in \$ millions)

	2004	2003
Cash flows relating to the following activities:		
Operations	\$ 2,784	\$ 1,225
Financing	(486)	(350)
Investment	(1,977)	493
Increase in cash & certificates of deposit	321	1,368
Cash & certificates of deposit, beginning of year	1,901	533
Cash & certificates of deposit, end of year	\$ 2,222	\$ 1,901

Cash and certificates of deposit were \$2,222 million at December 31, 2004, up \$321 million from 2003. In the year, cash flow provided by operations increased \$1,559 million to \$2,784 million. These operating cash flows were used by the Company to acquire investment assets supporting the Company's policy liabilities. As well, the Company utilized \$486 million of operating cash flow for financing activities, mainly to pay dividends. Refer to the Consolidated Statement of Cash Flows in the Company's Financial Statements.

Commitments/contractual obligations December 31 (in \$ millions)

	Payments due by period				
	Total	Within 1 year	1–3 years	4–5 years	Over 5 years
1) Long-term debt	\$ 760	\$ 1	\$ 2	\$ 2	\$ 755
2) Operating leases					
– office	355	72	114	68	101
– equipment	13	11	2	–	–
3) Credit-related arrangements					
(a) Contractual commitments	41	41	–	–	–
(b) Letters of credit	SEE NOTE 3b BELOW				
– reinsurance related	–	–	–	–	–
– other	–	–	–	–	–
4) Purchase obligations	48	28	20	–	–
Total contractual obligations	\$ 1,217	\$ 153	\$ 138	\$ 70	\$ 856

(1) Long-term debt – refer to note 9 of Great-West's 2004 annual financial statements.

(2) Operating leases include office space and certain equipment used in the normal course of business. Lease payments are charged to operations over the period of use.

(3) (a) Contractual commitments are essentially commitments of investment transactions made in the normal course of operations in accordance with policies and guidelines that are to be disbursed upon fulfillment of certain contract conditions.

(b) Letters of credit (refer to note 22 of Great-West's annual financial statements and to "Liquidity risk (letters of credit)" section of this document); reinsurance related contracts almost entirely related to security required to be provided as collateral under certain reinsurance contracts for on balance sheet policy liabilities.

(4) Purchase obligations are commitments to acquire goods and services, essentially related to information systems.

Capital management and adequacy

The Company's practice is to maintain the capitalization of its regulated operating subsidiaries at a level that will exceed the relevant minimum regulatory capital requirements in the jurisdictions in which they operate.

In Canada, the Office of the Superintendent of Financial Institutions (OSFI) has established a capital adequacy measurement for life insurance companies incorporated under the *Insurance Companies Act* (Canada) and their subsidiaries, known as the Minimum Continuing Capital and Surplus Requirements (MCCSR). Great-West's MCCSR ratio at the end of 2004 was 199% (190% at the end of 2003). London Life's MCCSR ratio at the end of 2004 was 235% (252% at the end of 2003). Canada Life's MCCSR ratio at the end of 2004 was 218% (204% at the end of 2003).

The MCCSR position of Great-West is affected significantly by the existence of goodwill and intangible assets, which, subject to a prescribed inclusion for a portion of intangible assets, are deducted in the calculation of available regulatory capital.

The capitalization of the Company and its operating subsidiaries will also take into account the views expressed by the various credit rating agencies that provide financial strength and other ratings to the Company.

Ratings of Great-West, London Life and Canada Life

Rating agency	Measurement	Great-West	London Life	Canada Life
A.M. Best Company	Financial Strength	A+	A+	A+
Dominion Bond Rating Service	Claims Paying Ability	IC-1	IC-1	IC-1
	Subordinated Debt			AA (low)
Fitch Ratings	Insurer Financial Strength	AA+	AA+	AA+
Moody's Investors Service*	Insurance Financial Strength	Aa3	Aa3	Aa3
Standard & Poor's Rating Services*	Insurer Financial Strength	AA	AA	AA
	Subordinated Debt			A+

*Ratings are on negative outlook.

Management is responsible for establishing capital management procedures for implementing and monitoring the capital plan. The Company has also established policies and procedures designed to identify, measure and report all material risks. The capital plan is designed to ensure that the Company maintains adequate capital, taking into account the Company's strategy and business plans. The Board of Directors reviews and approves all capital transactions undertaken by management pursuant to the annual capital plan.

Ratings

At the time of the CLFC acquisition in July, 2003, the ratings of the Company and its major subsidiaries were downgraded a single rating notch, and were assigned a negative outlook by Standard & Poor's Rating Services (S&P) and Moody's Investors Service (Moody's).

The ratings identified in the table were all reaffirmed in 2004, with the negative outlooks assigned by S&P and Moody's remaining.

During 2004, the Company has continued its discussions with both S&P and Moody's regarding the status of their negative outlooks. They continue to monitor the progress of the Company and its major subsidiaries towards restoring their pre-acquisition capital and financial leverage positions.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

- (i) Refer to note 4 "Portfolio Investments", note 9 "Debentures and Other Borrowings", and note 18 "Off Balance Sheet Financial Instruments" for a description of financial instruments held by the Company at December 31, 2003.
- (ii) Refer to note 1 for a description of fair value determination.
- (iii) Refer to note 8 for a description of the relationship of assets and actuarial liabilities.
- (iv) Refer to the "Risk Management and Control Practices" section of this report for a description of the risks and the management of risks associated with financial instruments associated with actuarial liabilities.

RISK MANAGEMENT AND CONTROL PRACTICES

Insurance companies are in the business of assessing, assuming and managing risk. The types of risks are many and varied, and will be influenced by factors both internal and external to the businesses operated by the insurer. These risks, and the control practices used to manage the risks, may be broadly grouped into four categories:

1. Insurance Risks
2. Investment or Market Risks
3. Operational Risks
4. Other Risks

The risk categories above have been ranked in accordance with the extent to which they would be expected to impact the business on an ongoing basis and, accordingly, would require more active management. It must be noted, however, that items included in the third or fourth categories, such as legal, regulatory or reputational risks, may still represent serious risks notwithstanding the expectation that they may be less likely to be realized.

Insurance Risks – General

By their nature, insurance products involve commitments by the insurer to provide financial obligations and insurance coverage for extended periods of time. In order to provide insurance protection profitably, the insurer must design and price products to ensure that the premiums received, and the investment income earned on those premiums, will be sufficient to pay future claims and expenses associated with the product. This requires the insurer, in pricing products and establishing policy liabilities, to make assumptions regarding expected levels of income and expense. Although pricing on some products is guaranteed throughout the life of the contract, policy liability valuation requires regular updating of assumptions to reflect emerging experience. Ultimate profitability will depend upon how closely actual experience tracks to expected, particularly in regards to the following:

Claims (mortality and morbidity) – Many products provide benefits in the event of death or disabling conditions or provide for medical or dental costs. Research and analysis is continuously ongoing to provide the basis for pricing and valuation assumptions which properly reflect the insurance and reinsurance markets where the Company is active. Effective underwriting policies control the selection of risks insured for consistency with claims expectations. Underwriting limits control the amount of risk exposure insured in the property and casualty reinsurance operations.

Lapsation – Products are priced and valued to reflect the expected duration of contracts. Lapsation is an important assumption for expense recovery to the extent that higher costs are incurred in early contract years, and for certain long-term level premium products where costs increase by age and pricing assumes that some policyholders will discontinue their coverage. Annual research studies support pricing and valuation assumptions for this risk.

Investment yield – Products are priced and valued based on the investment returns available on the assets that support the policy liabilities. Effective and ongoing communication between pricing, valuation and investment management is required to control this risk. Investments are made in accordance with investment policies that have been approved by the Directors of each operating company. These policies provide guidance on the mix of assets allowable for each product segment. Yield rates are derived from the actual mix of assets put in place. Products with long term cash flows and pricing guarantees carry more risk. Both pricing and valuation manage this risk by requiring higher margins where there is less yield certainty. The pricing and valuation of death benefit, maturity value and income guarantees associated with variable contracts employs stochastic modeling of future investment returns.

Reinsurance – Products with mortality and morbidity risks have specific limits on Company retention approved by the Boards of Directors on the recommendation of the Actuary. These limits are reviewed and updated from time to time. Risk underwritten in excess of these approved levels is ceded, or transferred, by the Company to third party reinsurers. Companies providing reinsurance to the Company are reviewed for financial soundness as part of the ongoing monitoring process.

Insurance Risks – Specific Businesses

Insurance risks are specific to the particular businesses carried on by the Company and the types of products offered through those businesses.

Canada

Group Insurance – The most significant insurance risk relates to the Company's ability to predict claims experience for the following year. Most risks facing the group insurance business are mitigated by the fact that most contract rate levels can be adjusted on a yearly basis.

For health care products, inflation and utilization will influence the level of claim costs. While inflationary trends are relatively easy to predict, claims utilization is less predictable. The impact of aging, which plays a role in utilization, is well documented. However, the introduction of new services, such as breakthrough drug therapies, has the potential to substantially escalate benefit plan costs. The Company manages the impact of these and similar factors through plan designs that limit new costs and through pricing that takes demographic and other trend factors into account.

For disability products, a number of factors, including aging and industry characteristics, play a role in future claim patterns. The risks emerging from these factors are managed through pricing and plan designs that emphasize prevention, early intervention and return to work programs.

Individual Life – The most significant insurance risk in the life insurance business is mortality, which has an impact both on claims paid during the year and on the reserves that must be established to fund future claims. The Company manages this risk primarily through effective underwriting practices developed to support the long-term sustainability of the business. Because of the long-term nature of life insurance contracts, the impact of underwriting practices tends to emerge 20 or 30 years after contracts are issued, when most claims are incurred.

A current industry risk involves the pricing of the level cost of insurance option within universal life products. The pricing of this option, guaranteed for the life of the policy, requires a guaranteed interest rate and lapse assumption extending over a long period. A small adverse change in actual long-term lapses or investment returns can lead to significant insufficiency in premiums. Management continues to prudently manage this pricing risk.

Living Benefits – The most significant insurance risk for this line of business is morbidity, which is the incidence and duration of disability insurance claims and the incidence of critical conditions for critical illness insurance. Disability experience is highly cyclical.

The Company manages the disability risk through its underwriting practices, experience and trend analysis, in addition to its reserve and pricing reviews.

Retirement & Investment Services – The Company's investment fund business is fee-based, with revenue and profitability based on the market value of investment fund assets under management. Fluctuations in fund asset levels occur as a result of both changes in cash flow and general investment market conditions. Accordingly, fee income derived in connection with the management of investment funds is sensitive to prevailing market conditions. Movements in market levels will produce variability in the level of fee income derived from this type of business. As well, a significant decline in market values could increase the cost to the Company associated with segregated fund death benefit and maturity value guarantees.

Through its wide range of funds, the Company limits its risk exposure to any particular market. As well, the Company encourages its clients to follow a long-term asset allocation approach, which will reduce the variability of returns and the frequency of fund switching. As a result of this approach, a significant proportion of individual segregated fund assets are in holdings of either a diversified group of funds or "fund of funds" investment profiles, which are designed to improve the likelihood of achieving optimal returns within a given level of risk.

With the significant increase in the group retirement business resulting from the acquisition of Canada Life, the Company has expanded its presence in this relatively stable business. With a significant proportion of premiums being received through employer-sponsored, payroll deduction plans, contributions and withdrawals from this business are less affected by volatile market conditions.

Europe

Group Insurance – The most significant insurance risk relates to the Company's ability to predict claims experience for the following year. The risk of inaccurately predicting mortality and morbidity claims is mitigated through biannual repricing, claims experience monitoring, underwriting and controls over open disability claims.

Individual Insurance – The most significant insurance risk in the life insurance business is mortality, which has an impact both on claims paid during the year and on the reserves that must be established to fund future claims. The Company manages this risk primarily through effective underwriting practices developed to support the long-term sustainability of the business. Because of the long-term nature of life insurance contracts, the impact of underwriting practices tends to emerge 20 or 30 years after contracts are issued, when most claims are incurred.

Wealth Management – The Company's investment fund business is fee-based, with revenue and profitability based on the market value of investment fund assets under management. The Company earns fees based upon premium levels and asset levels. Fluctuations in fund asset levels occur as a result of both changes in cash flow and general investment market conditions. Through its wide range of funds, the Company limits its risk exposure to any particular market. As well, the Company encourages its clients to follow a long-term asset allocation approach.

Reinsurance – The reinsurance business encompasses a wide variety of risks. The most significant insurance risks include natural catastrophic events that result in property damage, mortality risk relating to the Company's individual life reinsurance business, and the level of interest rates and investment fund performance in connection with the Company's annuity guarantee business. The Company monitors cedant companies' claims experience on an ongoing basis. Diversification of products by underlying insurance type and geography continues to be a major risk mitigation tool.

Investment or Market Risks

The Company acquires and manages portfolios of assets to produce risk-adjusted returns in support of policyholder obligations and corporate profitability. The Boards of Directors or the Executive Committees and the Investment Committees of the Boards of Directors annually approve Investment and Lending Policies, as well as Investment Procedures and Guidelines. A comprehensive report on compliance with these policies and guidelines is presented to the Boards of Directors or Investment Committees annually, and the Internal Audit department conducts an independent review of compliance with investment policies, procedures and guidelines on a periodic basis.

The significant investment or market risks associated with the business are outlined below.

Interest rate risk – Interest rate risk exists if asset and liability cash flows are not closely matched and interest rates change.

The Company utilizes a formal process for managing the matching of assets and liabilities. This involves grouping general fund assets and liabilities into segments. Assets in each segment are managed in relation to the liabilities in the segment. Interest rate risk is managed by investing in assets that are suitable for the products sold. For products with fixed and highly predictable benefit payments, investments are made in fixed income assets that closely match the liability product cash flows. Protection against interest rate change is achieved as any change in the fair market value of the assets will be offset by a similar change in the fair market value of the liabilities. For products with uncertain timing of benefit payments, investments are made in fixed income assets with cash flows of shorter duration than the anticipated timing of the benefit payments. The risks associated with the mismatch in portfolio duration and cash flow, asset prepayment exposure and the pace of asset acquisition are quantified and reviewed regularly.

Equity market risk – The Company's investment policy guidelines provide for prudent investment in equity markets within clearly defined limits. Given the volatility in equity market values, income in any year may be adversely affected by decreases in market values, notwithstanding the Company's long term expectation of investment returns appropriate for this asset class.

Sensitivity of earnings – The following table shows the sensitivity of the Company's earnings to changes in the interest rate environment and equity markets based on the existing business mix. These amounts are estimated assuming limited management actions to mitigate the impact of the changes.

Increase (decrease) in after-tax shareholder earnings (in \$ millions)

Interest rate sensitivity ⁽¹⁾	
1% Increase	\$ (34)
1% Decrease	(5)
Equity market sensitivity ⁽²⁾	
10% Increase	60
10% Decrease	(97)

(1) represents a 100 basis point parallel shift in assumed interest rates across the entire yield curve.

(2) represents the percentage change in equity markets.

Credit risk – It is Company policy to acquire only investment-grade assets and minimize undue concentration of assets in any single geographic area, industry and company. Guidelines specify minimum and maximum limits for each asset class. Credit ratings for bonds are determined by recognized external credit rating agencies and/or internal credit review. These portfolios are monitored continuously and reviewed regularly with the Boards of Directors or the Investment Committees of the Boards of Directors. Off-balance sheet credit risk is evaluated quarterly on a current exposure method, using practices that are at least as conservative as those recommended by regulators.

Liquidity risk (asset/liability) – The Company closely manages operating liquidity through cash flow matching of assets and liabilities and, at December 31, 2004 has approximately \$35.6 billion in highly marketable securities.

Liquidity risk (letters of credit) – In the normal course of its Reinsurance business, the Company provides letters of credit (LOC) to other parties, or beneficiaries. A beneficiary will typically hold an LOC as collateral in order to secure statutory credit for reserves ceded to or amounts due from the Company. If an amount is drawn on an LOC by a beneficiary, the bank issuing the LOC will make a payment to the beneficiary for the amount drawn, and the Company will become obligated to repay this amount to the bank.

The Company, through certain of its operating subsidiaries, has provided LOCs as follows:

To external parties

In order for the non-U.S. licensed operating subsidiaries within LRG to conduct reinsurance business in the U.S., they must provide collateral to the U.S. insurance and reinsurance companies to whom reinsurance is provided in order for these companies to receive statutory credit for reserves ceded to LRG. To satisfy this collateral requirement, LRG, as applicant, has provided LOCs issued by a syndicate of financial institutions. The aggregate amount of this LOC facility is US \$970 million, and the amount issued at December 31, 2004 was US \$748 million, including US \$73 million between LRG subsidiaries as described below.

To internal parties

Canada Life as applicant has provided LOCs relating to business activities conducted within the Canada Life group of companies in respect of the following:

- to its U.S. branch as beneficiary, to allow Canada Life to receive statutory capital credit for life reinsurance liabilities ceded to Canada Life Ireland Re. (US \$417 million)
- to Canada Life Ireland Holdings Limited (CLIHL) as beneficiary, to allow CLIHL to receive statutory capital credit in the United Kingdom for a loan made to The Canada Life Group (UK) Limited. (£117 million)
- to a U.S. regulator as beneficiary on behalf of its U.S. branch, to receive statutory capital credit for certain reinsurance liabilities ceded to third party non-U.S. licensed reinsurers. (US \$112 million)

As well certain LRG subsidiaries as applicants have provided LOCs to other LRG subsidiaries, as beneficiaries to allow them to receive statutory capital credit for reserves ceded to the other subsidiaries (US \$73 million).

Management monitors its use of LOCs on a regular basis, and assesses the ongoing availability of these and alternative forms of operating credit.

Foreign exchange risk (earnings) – The Company's consolidated operations provide a broad business platform that is well diversified in terms of both the nature of the various businesses and the geographic locations in which these businesses are conducted. The degree of geographic diversification in the business operations creates exposure to fluctuations in foreign currency. Management has implemented a program that utilizes forward foreign currency contracts to mitigate the volatility arising from the movement of rates as they impact the translation of operating results denominated in foreign currency.

For the twelve months ended December 31, 2004, of C\$24 billion of total premiums and deposits approximately C\$9 billion or 39% were denominated in currencies other than Canadian dollars. Similarly, approximately C\$383 million or 34.5% of the C\$1,108 million total net income was denominated in foreign currencies. At December 31, 2004, approximately C\$24 billion or 34% of C\$71 billion of total general fund assets were denominated in foreign currencies.

In January 2005, forward foreign currency contracts were put in place to hedge certain British pound and euro exposures. As a result of these transactions, approximately 40% and 50% of the Company's estimated British pound and euro net income exposures for 2005 have been hedged at \$2.3087 and \$1.6055.

Foreign exchange risk (assets) – Investments are normally made in the same currency as the liabilities supported by those investments. Any foreign currency assets acquired to back liabilities are converted using foreign exchange contracts.

Derivative instruments – Derivative instruments are used only to hedge imbalances in asset and liability positions or as substitutes for cash instruments; they are not used for speculative purposes. Derivative products are traded with counterparties approved by the Boards of Directors or the Investment Committees of the Boards of Directors. They may include interest rate, foreign exchange and equity swaps, options, futures and forward contracts. The Company's risk management process governing the use of derivative instruments requires that the Company acts only as an end-user of derivative products, not as a market maker. As well, the Company has strict operating policies which prohibit the use of derivative products for speculative purposes, permit transactions only with approved counterparties, specify limits on concentration of risk, and documents approval and issuer limits, as well as required reporting and monitoring systems.

Operational Risks

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Company manages and mitigates internal operational risks through integrated and complementary policies, procedures, processes and practices. Human Resources hiring, performance evaluation, promotion and compensation practices are designed to attract, retain and develop the skilled personnel required. A comprehensive job evaluation process is in place and training and development programs are supported. Each business area provides training designed for their specific needs and has developed appropriate internal controls. Processes and controls are monitored and refined by the business areas and periodically reviewed by the Company's internal audit staff. Financial reporting processes and controls are further examined by external auditors. The Company applies a robust project management discipline to all significant initiatives.

Appropriate security measures protect premises and information. The Company has emergency procedures in place for short term incidents or outages and is committed to maintaining business continuity and disaster recovery plans in every major location which include offsite data storage and facilities.

Other Risks

Other risks not specifically identified elsewhere, include:

Legal and regulatory risk – The Company monitors compliance with the legal and regulatory requirements in all jurisdictions where it conducts business and assesses trends in legal and regulatory change to keep business areas current and responsive.

Reputational risk – In the course of its business activities, the Company may be exposed to the risk that some actions may lead to damage to the Company's reputation and hence damage to its future business prospects.

These actions may include unauthorized activities of employees or other people associated with the Company, inadvertent actions of the Company that become publicized and damage the Company's reputation, regular business activities of the Company that become the subject of regulator or media scrutiny and, due to a change of public perception, cause damage to the Company, or any other action or activity that gives rise to damage to the Company's general reputation.

To manage or mitigate this risk the Company has ongoing controls to limit the unauthorized activities of people associated with the Company. It also reacts to address situations that may escalate to a level that might give rise to damage to the Company's reputation.

Through its subsidiaries, the Company is both a user and a provider of reinsurance, including both traditional reinsurance, which is undertaken primarily to mitigate against assumed insurance risks, and financial or finite reinsurance, under which the amount of insurance risk passed to the reinsurer may be more limited. The Company accounts for all reinsurance transactions according to Canadian generally accepted accounting principles (Canadian GAAP). In some cases Canadian GAAP may differ from the accounting treatment utilized by the Company's reinsurers or its reinsureds based upon the rules applicable to them in their reporting jurisdictions. The Company believes that transactions of this type that it has entered into are appropriate and properly accounted for. Notwithstanding, the Company may, in connection with this type of reinsurance, be exposed to reputational or other risks depending on future events.

CHANGES IN ACCOUNTING POLICIES

Generally accepted accounting principles – Effective January 1, 2004, the Company was required to comply with CICA Handbook Section 1100 Generally Accepted Accounting Principles, which establishes the hierarchy of the sources of Canadian GAAP.

Stock-based compensation – Effective January 1, 2004, CICA Handbook Section 3870 Stock Based Compensation, was amended to require expense treatment of all stock-based compensation and payments at grant date. This change in accounting policy has been applied retroactively without restatement of prior years' financial statements and, results in a charge of \$2 million to shareholder surplus, a charge of \$1 million to non-controlling interests and an increase in contributed surplus of \$3 million.

Hedging relationships – Accounting Guideline 13 Hedging Relationships, effective for January 1, 2004, establishes criteria that must be met in order to apply hedge accounting for derivatives. Changes in fair value of derivatives that do not qualify for hedge accounting will be recorded in the Consolidated Statements of Net Income.

Employee future benefits – Effective for December 31, 2004, CICA Handbook Section 3461 Employee Future Benefits was amended to provide enhanced disclosure of the Company's pension plans and other post-retirement benefits. Other than enhancements of previous disclosures, none of the changes had a material impact on the financial statements or position of the Company.

SUMMARY OF CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with Canadian GAAP requires management to adopt accounting policies and to make estimates and assumptions that affect amounts reported in the Consolidated Financial Statements. The major accounting policies and related critical accounting estimates underlying the Company's financial statements are summarized below. In applying these policies, management makes subjective and complex judgements that frequently require estimates about matters that are inherently uncertain. Many of these policies are common in the insurance and other financial services industries; others are specific to the Company's businesses and operations. The Company's general policies are described in detail in note 1 of the Consolidated Financial Statements.

Actuarial liabilities – Actuarial liabilities represent the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commission and policy administrative expenses for all insurance and annuity policies in force with the Company. The Appointed Actuary of the Company is responsible for determining the amount of the actuarial liabilities to make appropriate provision for the Company's obligations to policyholders. The Appointed Actuary determines the actuarial liabilities using generally accepted actuarial practices, according to the standards established by the Canadian Institute of Actuaries. The valuation uses the Canadian Asset Liability Method. This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations and involves a significant amount of judgement. Additional details regarding these adjustments and estimations can be found in note 8 of the Consolidated Financial Statements.

Income taxes – As multinational life insurance companies, Great-West and its primary Canadian operating subsidiaries are subject to a regime of specialized rules prescribed under the Income Tax Act (Canada) for purposes of determining the amount of the companies' income that will be subject to tax in Canada. Accordingly, the determination of the companies' provision for income taxes involves the application of these complex rules in respect of which alternative interpretations may arise.

Management recognizes that interpretations it may make in connection with its tax filings may ultimately differ from those made by the tax authorities, and accounts for these potential differences in its financial statements. Upon resolution of any such differences, amounts provided by management may be recognized in earnings to reflect actual experience.

The Company has substantial future income tax assets. The recognition of future tax assets depends on management's assumption that future earnings will be sufficient to realize the deferred benefit. The amount of the asset recorded is based on management's best estimate of the timing of the reversal of the asset.

Employee future benefits – Accounting for pension and other post-retirement benefits requires assumptions of future returns on plan assets, expected increases in compensation levels, trends in health care costs, as well as the appropriate discount rate for accrued benefit obligations. These assumptions are discussed in note 15 of the Consolidated Financial Statements.

FUTURE ACCOUNTING POLICIES

Variable interest entities – AcG 15 – Effective January 1, 2005, the Company will be required to comply with the provisions of Accounting Guideline 15, Consolidation of Variable Interest Entities. As a result of the new guideline the Company will no longer consolidate The Great-West Life Capital Trust and Canada Life Capital Trust that were used to issue Innovative Tier 1 capital. For regulatory capital purposes, the \$800 million of capital issued by the trusts has been grandfathered as Tier 1 capital by OSFI. The capital trust units issued by the trusts will move from non-controlling interests to debentures and other borrowings on the Consolidated Balance Sheet.

Liabilities and equity – During 2004, CICA Handbook Section 3860, Financial Instruments – Disclosure and Presentation, was amended to require financial instruments that can be converted into a variable number of the Company's common shares at the holders option be presented as a liability, effective for January 1, 2005. As a result capital trust units and preferred shares currently presented as non-controlling interests will be reclassified to debentures and other borrowings on the Consolidated Balance Sheet.

Earnings per share – CICA Handbook Section 3500 Earnings per Share is expected to be amended in 2005 to require inclusion of the dilutive effects of convertible securities in the calculation of diluted earnings per share, regardless of the Company's intention to settle the securities in cash or common shares. As a result, the Company will include the dilutive effects of its convertible preferred shares in the calculation of diluted earnings per share. This change is not expected to have a material impact on the financial statements of the Company.

Financial instruments – During 2005, the CICA plans to issue sections 1530 Comprehensive Income, 3855 Financial Instruments – Recognition and Measurement, and 3865 Hedges, which are proposed to be effective for January 1, 2007. These sections will address the recognition and measurement of financial instruments and the application of hedge accounting. The Company is reviewing the potential impact that these new accounting requirements will have on the financial statements of the Company.

SEGMENTED OPERATING RESULTS

Financial Information Consolidated Operations (in \$ millions)

	2004			2003		
	Shareholder	Participating	Total	Shareholder	Participating	Total
For the years ended December 31						
Income:						
Premium income	\$ 10,599	\$ 1,944	\$ 12,543	\$ 8,219	\$ 1,718	\$ 9,937
Bulk reinsurance – initial ceded premiums ⁽¹⁾	–	–	–	(5,282)	(997)	(6,279)
	10,599	1,944	12,543	2,937	721	3,658
Net investment income	2,292	1,434	3,726	1,989	1,223	3,212
Fee and other income	1,083	1	1,084	660	–	660
Total income	13,974	3,379	17,353	5,586	1,944	7,530
Benefits and expenses:						
Paid or credited to policyholders ⁽¹⁾	10,419	2,815	13,234	3,163	1,404	4,567
Other	2,115	406	2,521	1,472	326	1,798
Restructuring costs	42	–	42	26	–	26
Amortization of finite life intangible assets	18	–	18	7	–	7
Distribution on Capital Trust Securities	31	–	31	28	–	28
Net operating income before income taxes	1,349	158	1,507	890	214	1,104
Income taxes	213	51	264	153	117	270
Net income before non-controlling interests	1,136	107	1,243	737	97	834
Non-controlling interests	17	–	17	14	–	14
Net income	\$ 1,119	\$ 107	\$ 1,226	\$ 723	\$ 97	\$ 820
Less net income – participating policyholder	–	107	107	–	97	97
Net income – shareholders	1,119	–	1,119	723	–	723
Preferred shareholder dividends	11	–	11	11	–	11
Net income – common shareholder	1,108	–	1,108	712	–	712

(1) (i) During 2003, as part of a risk rebalancing program related to the acquisition of CLFC, a number of bulk reinsurance ceded contracts were executed by Great-West with third parties on a funds withheld basis. Premiums related to the initial cession of in force policy liabilities in Canada/Europe operations were \$2,716 million.

(ii) During 2003, a reinsurance agreement was executed between CLFC and GWL&A whereby GWL&A reinsured 80% of the individual and group policy liabilities of CLFC's US branch. Premiums related to the initial cession of this business were \$3,563 million.

Business Units

GROUP INSURANCE

Business Profile

In Canada, the Company offers effective benefit solutions for large and small employee groups. The acquisition of Canada Life in 2003 strengthened the Company's position in the marketplace as one of the leading providers of employee life and health benefit plans in Canada. As well, through its Canada Life subsidiary, the Company is a recognized leader in the creditor insurance business with over \$1 billion in annual premium.

Market Overview

Products and services

The Company provides a full array of life, health and creditor insurance products that are distributed primarily through Group sales offices across the country.

Group Insurance

Market position

- Employee benefits for more than 34,000 plan sponsors
- 24% market share for employee/employer plans

Products and services

Life and Health

- Life
- Disability
- Critical illness
- Accidental death & dismemberment
- Dental plans
- Expatriate coverage
- Extended health care plans

Creditor

- Creditor life
- Creditor disability
- Creditor job loss
- Creditor critical illness

Distribution

- 112 account managers and sales staff located in 15 Group Offices
- 103 Regional Employee Benefits Managers and Selectpac Specialists located in Resource Centres

Competitive conditions

There are three large group insurance carriers in Canada with significant market positions, led by the Company with a 24% market share. There are a number of other smaller companies operating nationally and several regional and niche companies including the Blue Cross organizations. The group insurance market is highly competitive. A strong market share position is essential to compete successfully in the Canadian group insurance market.

Within the small and mid-sized case markets, there are significant pricing pressures as employers seek to find ways to counter the inflationary costs of health care. Companies with low cost operations, extensive distribution networks, strong service capability and cost-containment product offerings have a competitive advantage in these markets.

In the larger case market, while low cost is a factor, service excellence and cost-containment product innovations are most important. In this market, companies that can effectively develop and implement innovative products and efficient administrative processes through the use of new technologies to meet emerging client requirements will differentiate themselves and achieve a competitive advantage.

2004 Highlights

- Net income to the common shareholder grew 30% to \$253 million.
- Strong sales growth was achieved in the large case insured and ASO markets.
- Very positive death and waiver claims experience emerged in the group life line of business.
- Migration of CLFC group business to Great-West systems continued throughout 2004 and is on schedule for completion in February, 2005.
- Quality and timely client service was maintained throughout the business migration process.
- The creditor insurance business operations introduced new systems technologies that have enhanced the Company's administrative processes and service capacity with the creditor clients.

Operating Results

Net income

Fourth quarter

Net income attributable to the common shareholder was \$64 million, which represents an increase of 42% compared to the fourth quarter of 2003.

The results reflect improved group life mortality experience from death and waiver claims across the small, mid-sized and large case markets.

In the quarter, there was a small deterioration in group health morbidity experience. While the medical, drug and dental sub-lines improved, particularly in the small and mid-sized case markets, the long-term disability sub-line did deteriorate on a quarter over quarter basis. The deterioration was particularly evident in the small and mid-sized case markets where incidence rates were higher than expected.

Interest gains were relatively flat on a quarter-over-quarter comparative basis and expense gains deteriorated somewhat as growth in expenses exceeded growth in expense recoveries in the quarter.

Twelve months

Net income attributable to the common shareholder was \$253 million, which represents an increase of 30% compared to \$194 million in 2003.

The 2004 results included a full year of earnings on the CLFC business compared to earnings only from the July 10, 2003 date of acquisition in 2003, thereby contributing to the year over year improvement. Excluding the contribution from CLFC of \$53 million in 2004 (compared to \$28 million in 2003), net income increased 20%.

A significant driver of the improved results was the improvement in the group life mortality results, particularly death and waiver claim experience. The medical, drug and dental sub-lines within the group health business also contributed to the improved results, particularly in the small and mid-sized case markets. Within the long-term disability sub-line the results, although profitable, deteriorated somewhat from the 2003 results. While results in the small and mid-sized case markets showed strong improvement due to improved incidence rates, these gains were offset by poor disability experience emerging from a number of larger case clients.

Interest gains improved marginally as a result of asset growth and moderate interest margin improvement. The expense gain component of earnings was relatively flat on a comparative year-over-year basis.

Group Insurance – divisional summary Years ended December 31 (in \$ millions)

	Premiums and deposits			Sales		
	2004	2003	% Change	2004	2003	% Change
Business/Product						
Small/mid-sized case	\$ 1,930	\$ 1,580	22%	\$ 174	\$ 200	-13%
Large case – insured	1,459	1,199	22%	153	52	194%
– ASO	1,863	1,675	11%	47	71	-34%
Sub-total	5,252	4,454	18%	\$ 374	\$ 323	16%
Premiums reinsured						
Small/mid-sized case	(472)	(185)				
Large case – insured	(385)	(166)				
Net premiums	\$ 4,395	\$ 4,103	7%			

Premiums and deposits and sales

Fourth quarter

Total net premiums and deposits were \$1,120 million, which is 3% lower than the fourth quarter of 2003. Excluding the impact of \$218 million of premiums ceded under a bulk reinsurance agreement (\$139 million in 2003), premiums and deposits increased 3% over the comparative period in 2003.

While overall sales results in the quarter were relatively flat compared to 2003, the persistency results within the CLFC block deteriorated somewhat, reflecting the impact of corrective rate renewal action taken to achieve overall required margins.

Twelve months

Total net premiums and deposits were \$4,395 million, which was \$292 million, or 7% greater than 2003.

The 2004 result is net of approximately \$857 million (\$351 million in 2003) of premiums ceded under a bulk reinsurance agreement. As well, total net premiums and deposits include approximately \$1,183 million (\$612 million in 2003) of net premium income from the CLFC business. Excluding the impact of the CLFC acquisition and the impact of the bulk reinsurance agreement, premiums and deposits increased 6% over 2003. This growth was driven by improved persistency within the Great-West block, improved sales results and rate adjustments to account for health care inflation. The growth was offset somewhat by deteriorating persistency in the small and mid-sized case CLFC block, reflecting the impact of the acquisition and the corrective rate renewal action required to achieve required margins on this block of business.

Sales results improved 16% in 2004. While sales in the small and mid-sized case markets were lower in 2004, reflecting a very competitive rate environment, sales in the large case insured and ASO markets improved substantially. These improved sales results reflect the improved value proposition that Great-West had to offer in 2004 in this market segment.

Integration of Canada Life

The acquisition of CLFC's group insurance business represented a unique opportunity for the Company to gain significant share in the target small and medium sized case group markets.

As well, through the acquisition of CLFC's group creditor business, the Company has gained a leading market position in this market segment. For the newly acquired creditor business, the Company's strategy will be to maintain the Canada Life brand and product offerings. In 2004, the creditor business operations introduced new systems technologies that have enhanced the Company's administrative processes and service capacity with the creditor clients.

The integration strategy for the non-creditor business has focused on migrating the CLFC customer base to a common Great-West branded set of products, administered on a single suite of enhanced Great-West systems. These system enhancements have allowed Great-West to deliver expanded customer services and lower unit costs. By leveraging the combined expertise and experience of the Great-West and CLFC organizations, the integration of the two group operations has been completed and migration of CLFC group business to Great-West systems is on schedule for completion in February of 2005. Importantly, quality and timely client service has been maintained throughout the conversion process.

Outlook – Group Insurance

The Company is strongly positioned within the Canadian group insurance marketplace and, accordingly, the outlook is very positive.

Demutualization and consolidation has resulted in price rationalization that has facilitated a greater opportunity for profitable growth in all market segments. New technologies have created new opportunities for the Company to lower costs while improving its product and service offerings to plan sponsors and plan members.

Great-West, with its extensive distribution capability and its low cost position, is in an excellent position to capitalize on these new opportunities. Through the effective application of new technologies, the Company expects to achieve significant reductions in administration and claims adjudication costs, thereby enhancing its competitive advantage as a low cost producer.

As well, these new technologies will allow the Company to enhance services to its plan sponsors, plan members and producers by offering them the ability to transact business and obtain benefit plan and health related information through the Internet.

Finally, as group disability plans continue to gain the attention of plan sponsors, Great-West has developed an array of expanded disability services that will support clients in the management of their plans. Early intervention programs and on-line disability management information services are available to meet these emerging client needs.

INDIVIDUAL INSURANCE & INVESTMENT PRODUCTS

Individual Insurance & Investment Products (IIIP) consists of two distinct business lines, Individual Insurance and Retirement & Investment Services. Products are distributed through Freedom 55 Financial and Great-West financial security advisors, Canada Life distribution partners including managing general agents, independent brokers and intercorporate agreements with other financial institutions.

Business Profile

Individual Insurance – Through its Individual Insurance business line, the Company provides life, disability and critical illness products to individual clients.

Retirement & Investment Services – The Retirement & Investment Services business line provides accumulation and pay-out annuity products to both individual and group clients.

Market Overview

Products and services

The Company provides a full array of protection and savings products that are distributed through multiple sales channels. Products are marketed under the Great-West, London Life and Canada Life brands.

Individual Insurance & Investment Products

Market position

- 25% market share of individual life insurance in force premium
- 31% market share of individual living benefits in force premium
- 31% market share in individual segregated funds
- 34% market share in group segregated funds

Products and services

Individual Insurance

Individual Life

- Term life
- Universal life
- Participating life

Living Benefits

- Disability
- Critical illness

Retirement & Investment Services

- Segregated funds
- Retirement savings plans
- Non-registered savings programs
- Deferred profit sharing plans
- Defined contribution pension plans
- Payout annuities
- Deferred annuities
- Investment management services only plans
- Retirement income funds
- Life income funds

Administrative Services

- Employee stock purchase and options plans
- Incentive plans

Distribution

- 1,202 Great-West financial security advisors
- 2,965 Freedom 55 Financial financial security advisors
- 2,564 Investors Group consultants
- 7,083 independent advisors associated with 67 managing general agents
- 2,340 independent advisors associated with 17 national accounts
- 2,378 independent brokers and benefit consultants

Competitive conditions

The individual insurance, savings, and investments marketplace is highly competitive. The Company's competitors include mutual fund companies, insurance companies, banks, investment advisors, as well as other service and professional organizations. Competition focuses on service, technology, cost and variety of investment options, investment performance, product features, price, and financial strength as indicated by ratings issued by nationally recognized agencies.

2004 Highlights

- IIIP earnings have doubled over the past two years largely as a result of the Canada Life acquisition and the resultant synergies realized.
- Implementation of an agreement with Solium Capital will allow the Company to offer a full range of group capital accumulation products. This coupled with its unique position of strength in all size markets, positions the Company very well for future success.
- Significant growth was experienced by Quadrus with over 80% growth in mutual fund sales and an extremely successful focus on asset accumulation throughout the year.

Operating Results

Net income

Fourth quarter

Net income attributable to the common shareholder for the three months ended December 31, 2004 was \$116 million, which was \$18 million more than the fourth quarter of 2003. The primary drivers of growth were higher fee income, and favourable mortality and tax experience.

Net income attributable to participating policyholder was \$78 million, \$38 million more than the fourth quarter of 2003.

Twelve months

Net income attributable to the common shareholder increased 50% to \$462 million over the 2003 result. The 2003 result includes income from the Canada Life business only for the period after the July 10, 2003 date of acquisition.

The increase in net income for 2004 also reflects the realization of expected expense synergies coming from the Canada Life acquisition as well as increased investment income and favourable mortality and morbidity experience.

Net income attributable to participating policyholder is largely unchanged year over year.

The Company offers 54 *Freedom Funds™* to individual Freedom 55 Financial clients, 54 *Generations™* Funds to individual Canada Life clients and 54 segregated funds to individual Great-West clients.

Quadrus Investment Services Ltd. (Quadrus) offers 37 mutual funds under the *Quadrus Group of Funds™* (QGOF) brand and over 2,400 third party mutual funds. Mackenzie Financial Corporation, a member of the Power Financial Corporation group of companies, manages QGOF's administrative platform.

Premiums and deposits and sales

Individual Insurance – divisional summary Years ended (in \$ millions)

	Individual life			Total
	Participating	Non-participating	Living benefits	
December 31, 2004				
Sales premium	\$ 75	\$ 76	\$ 47	\$ 198
Revenue premium income	1,751	454	212	2,417
December 31, 2003				
Sales premium	\$ 80	\$ 60	\$ 34	\$ 174
Revenue premium income	1,597	345	153	2,095

Individual Life

Fourth quarter

Sales of individual life insurance products for the fourth quarter of \$44 million were similar to 2003. The Company experienced growing acceptance of its uniquely branded universal life product as it continues to enhance the offering for all distribution channels. Term sales were affected by the rate-sensitive brokerage market in 2004. Sales of participating products have decreased in the market overall, as lower yields have been reflected in lower dividend scales. The weaker term and participating results were mitigated by growing acceptance of the Company's uniquely branded universal life product offering for all distribution channels.

Premiums and deposits on individual life insurance products increased \$6 million from 2003 to \$576 million in 2004 as the Company continued to benefit from strong persistency results.

Twelve months

Sales of individual life insurance products have increased \$11 million from 2003 to \$151 million in 2004, reflecting the inclusion of Canada Life sales for twelve months in 2004 compared to sales from the July 10, 2003 date of acquisition in 2003. Universal life sales increased 6% over the prior year as the Company's products received growing acceptance in its various distribution channels. Aggressive competitor rate positioning in the term market affected the Company's sales volume in the brokerage channels. Participating sales were influenced by dividend scale reductions in early 2004 and a market shift back towards universal life products. Premiums and deposits on individual life insurance products increased to \$2,205 million from \$1,942 million in 2003 mainly due to the impact of a full year of Canada Life results; however, continued strong persistency results on the in-force block of business contributed as well.

The 2004 result is net of \$89 million of premiums ceded by the Company under bulk reinsurance contracts entered into with third parties in 2003. In 2003, the premium ceded under these arrangements was \$48 million.

Living Benefits

Fourth quarter

Total living benefits sales were \$14 million, 17% higher than 2003. The strong growth versus the same quarter in the previous year was due entirely to the significant increase in critical illness sales.

Twelve months

Sales of Great-West critical illness products increased 15% to \$6 million in 2004. Sales of Great-West disability insurance products were \$20 million in 2004, equal to 2003. Total Great-West sales at \$26 million were 3% higher than 2003.

Sales of Canada Life critical illness products increased by 65% to \$15 million in 2004. Sales of Canada Life disability insurance

products were \$6 million in 2004, 12% less than 2003. Total Canada Life sales increased by 31% to \$21 million in 2004.

Consolidated sales of critical illness products were \$21 million, 45% higher than 2003. Consolidated sales of disability insurance products were \$26 million in 2004, 3% less than 2003. Total living benefits sales increased by 38% to \$47 million.

Critical illness insurance experienced increased sales in 2004 for both Great-West and Canada Life due in part to reinsurance-related changes in the Canadian critical illness insurance market. Canada's leading critical illness reinsurer announced a rate increase effective in the fourth quarter of 2004 affecting most critical illness insurance carriers. Although both Great-West and Canada Life increased rates and introduced enhanced critical illness products in the fourth quarter, clients were still able to purchase insurance products until the end of the year under the existing rate structure. The availability of these products, combined with the announcement in the fourth quarter of the discontinuation of one of Canada Life's critical illness insurance products, led to a marked increase in critical illness insurance sales for 2004 as clients sought to obtain coverage prior to rate increases.

As other carriers increase their rates, the Company anticipates critical illness sales will return to a more standard growth rate in 2005.

Canada Life's decline in disability insurance sales in 2004 follows a strong growth year in 2003. The Company expects Great-West's and Canada Life's disability insurance sales to experience small growth rates in 2005.

Retirement & Investment Services

Fourth quarter

Strong sales, cash flow and market gains were achieved in the fourth quarter for all Retirement & Investment Services product lines. Sales of individual annuity products increased 34% over 2003 and sales of group annuity products increased 168%. Total investment fund assets, including other administered group plans, increased by 5% in quarter to \$39 billion at December 31, 2004. In quarter, the Company's segregated funds growth was in line with the growth rate for the Canadian mutual fund industry.

Twelve months

Retirement & Investment Services achieved strong sales, cash flow and market gains in 2004, increasing total segregated fund assets to \$34.5 billion, an increase of 17% over 2003. The Company has over 30% market share in both individual and group segregated funds.

Individual savings plan sales were up 40% over 2003, reflecting increases in all companies as well as the inclusion of a full year of Canada Life results in 2004.

Quadrus Investment Services Years ended December 31 (in \$ millions)

	2004	2003
Mutual fund sales	\$ 448	\$ 248
Mutual fund assets	2,174	1,614

Mutual fund assets distributed by Quadrus licensed investment representatives increased by 35% over 2003. Sales of mutual funds through Quadrus increased 81%. Assets in the Quadrus Group of Funds grew to over \$2 billion at year end.

Other administered group plans Years ended December 31 (in \$ millions)

	2004	2003
Stock incentive and other administered assets	\$ 4,624	\$ 6,382

Retirement & Investment Services – divisional summary ⁽¹⁾ Years ended (in \$ millions)

	Individual savings plans	Group savings plans	Group investment management	Payout annuities	Total
December 31, 2004					
Sales premium					
Risk-based products	\$ 581	\$ 88	\$ —	\$ 251	\$ 920
Segregated funds	2,598	338	453	—	3,389
Revenue premium income					
Risk-based products	148	1,071	3	242	1,464
Segregated funds	2,196	3,613	449	—	6,258
Assets under administration					
Risk-based products	2,130	3,322	38	6,464	11,954
Segregated funds	15,759	13,369	5,330	—	34,458
Total	\$ 17,889	\$ 16,691	\$ 5,368	\$ 6,464	\$ 46,412
December 31, 2003					
Sales premium					
Risk-based products	\$ 415	\$ 66	\$ 9	\$ 128	\$ 618
Segregated funds	1,829	418	353	—	2,600
Revenue premium income					
Risk-based products	171	272	—	113	556
Segregated funds	1,492	1,430	378	—	3,300
Assets under administration					
Risk-based products	2,322	2,750	45	6,555	11,672
Segregated funds	14,131	10,194	5,015	—	29,340
Total	\$ 16,453	\$ 12,944	\$ 5,060	\$ 6,555	\$ 41,012

(1) Excludes Quadrus mutual funds sales and assets and other administered group plans.

In 2004, the Company converted \$3.2 billion of Canada Life group retirement business to its London Life platform (including conversion of \$2.2 billion of other administered assets; \$1.5 billion to segregated funds and \$0.7 billion to guaranteed funds). In addition, the stock incentive plan business acquired in the Canada Life acquisition and now administered by GRS Securities Inc. was converted to Solium Capital's administrative system. Throughout the conversion, cash flow from existing clients remained strong. Overall, group client assets including guaranteed and segregated fund savings, stock incentive plans, investment-only plans, payout annuities and other administered assets grew to \$28 billion at December 31, 2004. The strategic alliance with Solium Capital allows the Company to offer a full range of capital accumulation products. This coupled with its unique position of strength in all markets, positions the Company very well for future success.

Integration of Canada Life

The integration of all Canada Life administrative processes is essentially complete, with the last two information systems initiatives scheduled to be completed by the second quarter of 2005.

The efficiencies and knowledge gained through this consolidation have allowed the Company to leverage and enhance the service it provides to all distribution channels.

In 2004, Canada Life was chosen as a provider of individual life insurance products for Investors Group consultants, realigning the product support from Great-West to Canada Life's National Account organization to meet Investors Group's diverse needs. Great-West remains the provider for living benefits and small case group insurance for Investors Group consultants.

The Company also enhanced product support available to Canada Life's distribution channels through the regional marketing centres. The addition of more and experienced product consultants will

position Canada Life to benefit from the successful service model already in place for Great-West and Freedom 55 Financial.

Outlook – Individual Insurance & Investment Products

With the addition of Canada Life's distribution channels, and the enhanced focus and ability to meet each of their unique needs, the IIIP business unit has an unequalled distribution platform and leading market shares in all individual product lines.

The individual lines of business access the various distribution channels through three distinct product brands – Great-West, London Life and Canada Life. Unique products and services meet the needs of each distribution channel and allow the Company to maximize opportunities while minimizing channel conflict.

While the majority of 2005 business strategies are designed to be unique for each distribution channel, there are competitive and market needs common to all.

The Company will respond to fewer but stronger competitors by ensuring its portfolio is competitive and complete. Product development and enhancements include improved universal life products for all three product brands. In addition, the Company will continue to enable its investment representatives registered with Quadrus to confidently build their investment fund practice.

The Company will continue to make it easier for financial security advisors to do business with it. Tools delivered through the Company's secure advisor internet sites will provide advisors with improved access to product information. Services and specialists available through the Company's network of regional offices are another way for financial security advisors to obtain ongoing support. In addition, a focus for 2005 continues to be practice management tools and facilitation services that enhance value and enable financial security advisors to grow their own businesses.

The IIIP business unit is well positioned to meet the needs of its distribution partners and their clients with innovative solutions.

EUROPE / REINSURANCE

The Europe/Reinsurance business unit is broadly organized along geographically defined market segments and offers a wide range of protection and wealth management products and reinsurance. The segment is comprised of two distinct business units: Insurance and Annuities, which consists of operating divisions in the United Kingdom, Isle of Man, Republic of Ireland, and Germany; and Reinsurance, which operates primarily in the United States and Europe.

The Insurance and Annuities business is conducted through Canada Life and its subsidiaries. The Reinsurance business is conducted through Canada Life, LRG, and their subsidiaries.

Translation of Foreign Currency

Foreign currency assets and liabilities are translated into Canadian dollars at the market rate at the end of the financial period. All income and expense items are translated at an average rate for the period.

The Company mitigates the volatility associated with the fluctuation of foreign currencies by using forward foreign currency contracts. The effect of these contracts, when utilized, has been reflected in the Net Effective Rate. The rates used to translate foreign currency denominated items are:

Years ended December 31	Balance sheet		Operations	
	Assets & liabilities	Income & expenses	Net effective rate	
United States dollar				
2004	\$ 1.20	\$ 1.30	\$ 1.3648	
2003	\$ 1.29	\$ 1.40	\$ 1.5580	
British pound				
2004	\$ 2.31	\$ 2.38	\$ 2.3238	
2003	\$ 2.31	\$ 2.29	\$ 2.2900	
Euro				
2004	\$ 1.63	\$ 1.62	\$ 1.6200	
2003	\$ 1.63	\$ 1.58	\$ 1.5800	

Business Profile

Insurance & Annuities

The international operations of Canada Life and its subsidiaries are located primarily in Europe, and offer a focused portfolio of protection and wealth management products and related services mainly in the United Kingdom, Isle of Man, Republic of Ireland and Germany.

The core products offered in the United Kingdom are payout annuities and group insurance. These products are distributed through independent financial advisors and employee benefit consultants. The Isle of Man operation provides investment and protection products that are sold through independent financial advisors in the United Kingdom as well as through brokers in other selected territories.

The core products offered in the Ireland market are individual insurance and savings and pension products. These products are distributed through independent brokers and a direct sales force. The German operation focuses on pension products that are distributed through independent brokers.

Canada Life has continued to increase its presence in its defined market segments by focusing on the introduction of new products and services, enhancement of distribution capabilities and intermediary relationships.

Reinsurance

The Company's reinsurance business is conducted through Canada Life and LRG, primarily in the United States and Europe. The Company's business includes both reinsurance and retrocession business transacted directly with clients or through reinsurance brokers. The product portfolio offered by the Company includes life, annuity and property and casualty reinsurance, provided on both a proportional and non-proportional basis.

In addition to providing reinsurance products to third parties, the Company also utilizes reinsurance transactions between affiliated companies to facilitate risk management and capital management for its regulated subsidiaries. For purposes of reporting segmented operating results, the financial impact of most of these transactions is attributed back to the originating business line.

Market Overview

Products and services

The Company provides protection and wealth management products that are distributed primarily through independent sales channels.

Insurance & Annuities

Market position

U.K. and Isle of Man

- Among the top 30 of life insurance companies operating in U.K.
- A market leader, with 31% share of the group life market
- Second in the group income protection market with 18% share
- A top provider of offshore single premium investment product into the U.K., with 16% market share
- A provider of offshore unit linked business, with 7% market share
- Among the top four insurers in payout annuities, with 8% market share

Ireland

- Among the top seven insurers by new business market share

Germany

- Among the top five in broker unit linked market

Products and services

Individual Insurance

- Life insurance
- Living benefits

Group Insurance

- Income protection
- Living benefits

Wealth Management

- Pensions
- Savings
- Payout annuities

Distribution

U.K. and Isle of Man

- Independent financial advisors and brokers

Ireland

- Independent brokers and direct sales force

Germany

- Independent brokers

Reinsurance

Market position

- Among the top ten life reinsurers in the U.S. by assumed business
- Niche positions in P & C and annuity business

Products and services

Life insurance

- Yearly renewable term
- Co-insurance

Property & Casualty

- Catastrophe

Annuity

- Investment funds guarantee

Distribution

- Independent reinsurance brokers
- Direct placements

Competitive conditions

United Kingdom and Isle of Man

In the United Kingdom, the Company holds strong positions in several niche markets with particular strength in the payout annuity, offshore investment, group life and income protection markets. Insurance and wealth management products are sold primarily through independent financial advisors and brokers. In order to compete with other products carried by these independent advisors, the Company must maintain competitive product design and pricing, distribution compensation and service levels.

Republic of Ireland

The life insurance market in Ireland is very mature with one of the highest penetration rates in the world. The larger companies hold a significant share of the market. The Company operates in all segments of the market, and focuses on higher margin products including segregated funds protection, pensions and single premium savings and investment business. Canada Life is the seventh largest life insurance operation in Ireland as measured by new business market share.

Germany

In Germany, the Company has established itself as a provider of innovative fund-based products, mainly in the areas of pensions and living benefits. The Company's unitised with profits pension offering, together with its living benefit products have provided a platform for continued growth. The Company is now among the top five companies in the broker unit-linked market. As a result, the Company was well positioned to benefit from the surge in pensions business in the last quarter of 2004 brought about by changes to the taxation of these products.

Reinsurance

The Company has continued its growth in reinsurance. The Company has benefited from the continued consolidation in the U.S. life reinsurance market as ceding companies are seeking to diversify their reinsurance risks with financially strong reinsurers. Margins remained steady throughout 2004, reflecting stronger than expected pricing trends in the property and casualty market in the context of various natural disasters.

2004 Highlights

- Common shareholder net income increased \$208 million, up 141% over 2003.
- Premiums and deposits increased by \$3,382 million from 2003 levels, to \$9,198 million.
- Sales increased by \$2,242 million, up 43% over 2003.
- A Business Efficiency Program was launched in late 2002 to focus on service enhancement and cost reduction opportunities through process improvements. The program has been very successful, resulting in significant process improvements in the administration of key business areas.
- The Company continues to rationalize its presence in certain international locations. In 2004, the sale of the Bahamas and Cayman Islands branch was completed and the group business in Bermuda was sold. Agreements were reached in 2004 to sell operations in Brazil and the balance of the Bermuda business. Regulatory approvals are pending for these transactions.

Insurance & Annuities

Net income

Fourth quarter

Strong sales growth in wealth management products, favourable mortality and morbidity experience and improved operational efficiencies were the key contributors to the strong earnings and premium growth.

These results, combined with the impact of equity markets improvement and the strengthening of the British pound and euro against the Canadian dollar, were the key contributors to the strong performance of the business unit.

Twelve months

The reasons for the change in the twelve month periods are the same as for the fourth quarter periods.

Premiums and deposits and sales

Fourth quarter

The results reflect strong sales of payout annuity and offshore investment products in the United Kingdom, and pension products in Ireland and Germany.

Twelve months

Results primarily reflect strong sales of payout annuity and offshore investment products in the United Kingdom, and pension products in Ireland and Germany. The strong performance was partially offset by the impact of the divestiture of Bahamas and Puerto Rico at the end of 2003.

Outlook – Insurance & Annuities

During 2004, the Company completed an operational review of the businesses comprising its Europe segment. As a result, the Company will continue to look for opportunities to capitalize on its strong niche positions in its core businesses, and expand distribution capabilities.

A Business Efficiency Program was launched in late 2002 to focus on service enhancement and cost reduction opportunities through process improvements. The program has been very successful, resulting in significant process improvements in the administration of key business areas and a consequent saving of \$51 million on run rate expenses.

United Kingdom/Isle of Man – In the payout annuity business, sales grew significantly in 2004 and the operation expects further opportunities for growth in the year ahead. In addition, offshore products saw strong growth, along with the recently launched onshore segregated fund investment product. These trends are expected to continue in 2005. As a result of restructuring distribution support in the wealth management business, onshore and offshore sales teams are now integrated. This will result in lower costs and a more effective focus on independent financial advisors within target markets. In the group business, margins were strengthened during 2004, in order to take advantage of consolidation in the group risk market that occurred in 2003. Strengthening of margins is expected to continue in 2005. In addition, the group disability insurance product offering will be strengthened to increase market share, and distribution capability will be enhanced, with particular emphasis on the more profitable small and mid-sized case market segments.

Ireland/Germany – In the Republic of Ireland, the wealth management focus will continue, leveraging the Company's strong presence in the pensions market. The emphasis will be on expanding distribution capabilities, solidifying intermediary relationships and improving direct sales force productivity.

The Company has responded to changes in the taxation of life and pensions products by becoming the first company in Germany to introduce its new product suite to brokers. As a result, the German operation is well positioned to grow market share in both the pension and protection markets. The unitised with profits product has been adapted to meet the requirements of this legislation and will continue to be a strong and profitable performer in 2005. The unit-linked pension product will be enhanced during 2005 in order to maintain its strong position in this market segment. In addition, the living benefit products have been enhanced to increase market awareness in this area. This sales growth strategy will be supported by planned growth in sales support and back office administration to maintain service levels to the Company's brokers and policyholders.

International – The Company continues to rationalize its presence in certain international locations. In 2004, the sale of the Bahamas and Cayman Islands branch was completed and the group business in Bermuda was sold. Agreements were reached in 2004 to sell operations in Brazil and the balance of the Bermuda business. Regulatory approvals are pending for these transactions.

Reinsurance

Net income

Fourth quarter

During the year, the Company reorganized the corporate structure encompassing its reinsurance operations in Barbados. As a result, certain non-continuing property and casualty business lines will be consolidated into a single corporate entity in order to create management and other efficiencies.

In the fourth quarter, related to the reorganization described above, London Life and Casualty Reinsurance Company (LLCRC), a subsidiary of LRG, entered into a reinsurance agreement with London Life. Under the agreement, LLCRC will provide guarantee risk protection to London Life on its \$8.4 billion portfolio of Canadian segregated fund assets. The transaction resulted in a decrease in actuarial liabilities of \$38 million.

Reinsurance results included improved margins from its continuing businesses. However, unfavourable claims experience anticipated on certain property and casualty reinsurance contracts resulted in an increase in actuarial liabilities of \$60 million.

Twelve months

In Reinsurance, the Company increased actuarial liabilities in connection with certain property and casualty reinsurance contracts to reflect anticipated unfavourable claims experience, and decreased actuarial liabilities in connection with segregated fund guarantee risk. The results also reflect improved margins in the ongoing businesses in LRG.

Net income attributable to common shareholder

Years ended December 31 (in \$ millions)

	2004	2003	% Change
Insurance & Annuities	\$ 268	\$ 90	198%
Reinsurance	88	58	52%
	\$ 356	\$ 148	141%

Premiums and deposits and sales Years ended December 31 (in \$ millions)

	Premiums and deposits			Sales		
	2004	2003	% Change	2004	2003	% Change
Business/Product						
Insurance & Annuities	\$ 5,582	\$ 2,127	162%	\$ 4,028	\$ 1,653	144%
Reinsurance	3,616	3,689	-2%	3,399	3,532	-4%
Total premiums and deposits	\$ 9,198	\$ 5,816	58%	\$ 7,427	\$ 5,185	43%
Summary by Type						
Risk-based products	\$ 6,122	\$ 4,676	31%			
Segregated funds deposits – Individual products	3,074	1,139	170%			
– Group products	2	1	100%			
Total premiums and deposits	\$ 9,198	\$ 5,816	58%			

Premiums and deposits and sales

Fourth quarter

Premiums for the quarter increased \$48 million reflecting higher premiums in LRG.

Twelve months

Premiums for the twelve months ended December 31, 2004 decreased \$73 million due to commutation of certain reinsurance contracts in LRG partially offset by higher premiums in Canada Life Reinsurance.

Outlook – Reinsurance

In light of continuing challenges in the global reinsurance industry, the Company will continue to focus its attention on managing its exposures on its non-continuing property and casualty portfolio. Supported by a team of professional staff, the Company expects that it will continue to benefit from the strength of its long-term client relationships.

CORPORATE

The Corporate account is mainly comprised of the operations of the United States branches of Great-West and of Canada Life since the July 10, 2003 date of acquisition, restructuring costs, as well as investment income and distributions related to capital, and other expenses not associated with other business units.

Corporate

Products and services

Great-West U.S. Branch

- Individual non-participating life insurance – closed block of business
- Individual health insurance – closed block of business

Canada Life U.S. Branch

- Individual participating and non-participating life insurance – closed block of business
- Group life and health insurance – sale completed in February, 2004
- Individual health insurance – closed block of business

2004 Highlights

U.S. Branch Operations

- Great-West is a closed block of individual life business with total assets of \$233 million at December 31, 2004.
- Effective August 1, 2003, the Canada Life Branch reinsured 80% of its business to GWL&A.
- In December, 2003, GWL&A purchased the shares of two United States subsidiaries of Canada Life, Canada Life Insurance Company of America (CLICA) and Canada Life Insurance Company of New York (CLINY).
- In February 2004, completed the sale of Canada Life's US group business which represented approximately \$475 million in gross annual premiums (before reinsurance to GWL&A).
- Canada Life has total assets of \$2.6 billion at December 31, 2004.

Net income Years ended December 31 (in \$ millions)

	2004	2003
Participating policyholder	\$ –	\$ (4)
Preferred shareholder dividends	11	11
Common shareholder		
Great-West U.S. branch	3	4
Canada Life U.S. branch	24	32
Restructuring costs after-tax	(28)	(16)
Gain on sale – Lifestyle Retirement Communities	–	17
Other Corporate	38	25
Total common shareholder	37	62
Total	\$ 48	\$ 69

Net income attributable to the common shareholder in the Corporate account in 2004 was \$37 million, compared to \$62 million for 2003.

Net income for 2004 from the branch operations of Great-West and Canada Life was \$27 million (\$36 million in 2003). These are closed blocks of business as described above. Restructuring costs incurred in 2004, associated with the acquisition of Canada Life, were \$16 million and are described in note 3 of the Great-West financial statements.

Premiums and deposits Years ended December 31 (in \$ millions)

Business/Product

Group insurance

Individual markets

Individual disability

Segregated funds

– Individual markets

Total premiums and deposits

Reinsurance

Net premiums and deposits

	2004			2003		
	Participating	Non-participating	Total	Participating	Non-participating	Total
Group insurance	\$ –	\$ (65)	\$ (65)	\$ –	\$ 97	\$ 97
Individual markets	37	36	73	37	48	85
Individual disability	–	–	–	–	–	–
Segregated funds	–	–	–	–	–	–
– Individual markets	–	–	–	–	136	136
Total premiums and deposits	\$ 37	\$ (29)	\$ 8	\$ 37	\$ 281	\$ 318
Reinsurance	–	–	–	(997)	(2,566)	(3,563)
Net premiums and deposits	\$ 37	\$ (29)	\$ 8	\$ (960)	\$ (2,285)	\$ (3,245)

OTHER INFORMATION

Additional information relating to Great-West, including Great-West's most recent financial statements and Annual Information Form are available at www.sedar.com.

FINANCIAL REPORTING RESPONSIBILITY

The consolidated financial statements are the responsibility of management and are prepared in accordance with Canadian generally accepted accounting principles for life insurance enterprises, including the accounting requirements of the Office of the Superintendent of Financial Institutions Canada. The financial information contained elsewhere in the annual report is consistent with that in the consolidated financial statements. The consolidated financial statements necessarily include amounts that are based on management's best estimates. These estimates are based on careful judgments and have been properly reflected in the consolidated financial statements. In the opinion of management, the accounting practices utilized are appropriate in the circumstances and the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its segregated funds and the results of its operations and its cash flows and the changes in assets of its segregated funds in accordance with Canadian generally accepted accounting principles, including the requirements of the Superintendent of Financial Institutions Canada.

In carrying out its responsibilities, management maintains appropriate internal control over financial reporting designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles, including the requirements of the Superintendent of Financial Institutions Canada.

The consolidated financial statements were approved by the Board of Directors which has oversight responsibilities with respect to financial reporting. The Board of Directors carries out this responsibility principally through the Audit Committee, which is comprised of non-management directors. The Audit Committee is charged with, among other things, the responsibility to:

- Review the interim and annual consolidated financial statements and report thereon to the Board of Directors.
- Review internal control procedures.
- Review the independence of the external auditors and the terms of their engagement and recommend the appointment and compensation of the external auditors to the Board of Directors.
- Review other audit, accounting and financial reporting matters as required.

In carrying out the above responsibilities, this Committee meets regularly with management, and with both the Company's external and internal auditors to review their respective audit plans and to review their audit findings. The Committee is readily accessible to external and internal auditors and to the Appointed Actuary.

The Board of Directors of the Company, pursuant to the *Insurance Companies Act* (Canada), appoints the Actuary who is a Fellow of the Canadian Institute of Actuaries. The Actuary is:

- Responsible for ensuring that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations or directives.
- Required to provide an opinion regarding the appropriateness of the policy liabilities at the balance sheet date to meet all policyholder obligations. Examination of supporting data for accuracy and completeness and analysis of assets for their ability to support the policy liabilities are important elements of the work required to form this opinion.
- Required annually to analyze the financial condition of the Company and prepare a report for the Board of Directors. The analysis covers a five year period, and tests the projected capital adequacy of the company, under adverse economic and business conditions.

Deloitte & Touche LLP Chartered Accountants, as the Company's external auditors, have audited the consolidated financial statements. The Auditors' Report to the Policyholders, Shareholders and Directors is presented following the consolidated financial statements. Their opinion is based upon an examination conducted in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary in order to obtain reasonable assurance that the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its segregated funds and the results of its operations and its cash flows and the changes in assets of its segregated funds in accordance with generally accepted accounting principles, including the requirements of the Superintendent of Financial Institutions Canada.



Raymond L. McFeetors
President and Chief
Executive Officer



William W. Lovatt
Executive Vice-President
Chief Financial Officer

February 17, 2005

SUMMARY OF CONSOLIDATED OPERATIONS

(in \$ millions' except per share amounts)

For the years ended December 31

	2004	2003
Income		
Premium income	\$ 12,543	\$ 9,937
Bulk reinsurance – initial ceded premium (note 19)	–	(6,279)
	12,543	3,658
Net investment income	3,726	3,212
Fee and other income	1,084	660
	17,353	7,530
Benefits and Expenses		
Policyholder benefits	11,990	9,333
Increase in actuarial liabilities (note 19)	497	(5,549)
Policyholder dividends and experience refunds	747	783
Total paid or credited to policyholders	13,234	4,567
Commissions	1,022	663
Operating expenses	1,290	1,023
Restructuring costs (note 3)	42	26
Premium taxes	209	112
Amortization of finite life intangible assets (note 6)	18	7
Distribution on Capital Trust Securities (note 11)	31	28
Net operating income before income taxes	1,507	1,104
Income taxes – current	149	457
– future	115	(187)
Net income before non-controlling interests	1,243	834
Non-controlling interests (note 11)	17	14
Net income	1,226	820
Net income – participating policyholder	107	97
Net income – shareholders	1,119	723
Preferred shareholder dividends	11	11
Net income – common shareholder	\$ 1,108	\$ 712
Earnings per common share	\$ 544.90	\$ 440.70

CONSOLIDATED BALANCE SHEET

(in \$ millions)

December 31

2004

2003

Assets

Bonds (note 4)	\$ 38,677	\$ 36,942
Mortgage loans (note 4)	12,688	12,686
Stocks (note 4)	2,682	2,665
Real estate (note 4)	1,496	1,433
Loans to policyholders	2,242	2,194
Cash and certificates of deposit	2,222	1,901
Funds held by ceding insurers	2,337	4,142
Goodwill (note 6)	5,248	5,184
Intangible assets (note 6)	1,508	1,398
Other assets (note 7)	2,007	2,190
General fund assets	\$ 71,107	\$ 70,735
Segregated funds assets	\$ 52,214	\$ 44,874

Liabilities

Policy liabilities		
Actuarial liabilities (note 8)	\$ 46,046	\$ 45,715
Provision for claims	824	826
Provision for policyholder dividends	498	482
Provision for experience rating refunds	501	689
Policyholder funds	1,793	1,820
	49,662	49,532
Debentures and other borrowings (note 9)	815	1,030
Funds held under reinsurance contracts (note 19)	4,364	4,592
Other liabilities (note 10)	3,417	3,732
Deferred net realized gains (note 4)	2,019	2,098
	60,277	60,984
Non-controlling interests (note 11)		
Preferred shareholders in subsidiaries	359	361
Capital trust securities	651	466

Policyholder and Shareholder Equity

Participating surplus (note 12)	1,472	1,387
Capital stock (note 13)	6,105	5,905
Shareholder surplus	2,366	1,695
Currency translation account		
Participating policyholder (note 12)	(14)	(7)
Shareholder	(109)	(56)
	9,820	8,924
General fund liabilities, policyholder and shareholder equity	\$ 71,107	\$ 70,735
Segregated funds	\$ 52,214	\$ 44,874

Approved by the Board:



Robert Gratton
Chairman of the Board



Raymond L. McFeeters
President and Chief
Executive Officer

CONSOLIDATED STATEMENT OF SURPLUS

(in \$ millions)[†]

For the years ended December 31

	2004	2003
Participating		
Balance, beginning of year	\$ 1,387	\$ 1,243
Net income	107	97
Change in accounting policy (note 1(m))	(1)	—
Repatriation of Canada Life seed capital from participating policyholder account (note 12)	(21)	—
Canada Life Financial Corporation at date of acquisition (note 2)	—	42
Gain on sale of subsidiaries to a related party (note 16)	—	5
Balance, end of year	\$ 1,472	\$ 1,387
Shareholder		
Balance, beginning of year	\$ 1,695	\$ 1,247
Net income	1,119	723
Change in accounting policy (note 1(m))	(2)	—
Contributed surplus – stock option expense		
– change in accounting policy (note 1(m))	3	—
– current year expense (note 14)	5	—
Repatriation of Canada Life seed capital from participating policyholder account (note 12)	21	—
Gain on sale of subsidiaries to a related party (note 16)	—	55
Dividends to shareholders		
Preferred shareholders	(11)	(11)
Common shareholders	(464)	(319)
Balance, end of year	\$ 2,366	\$ 1,695

CONSOLIDATED STATEMENT OF CASH FLOWS

(in \$ millions)

For the years ended December 31

	2004	2003
Operations		
Net income	\$ 1,226	\$ 820
Adjustments for non-cash items:		
Change in policy liabilities	372	(5,119)
Change in funds held by ceding insurers	1,805	644
Change in funds held under reinsurance contracts	(306)	4,592
Change in current income taxes payable	(220)	110
Future income tax expense	115	(187)
Other	(208)	365
Cash flows from operations	2,784	1,225
Financing Activities		
Issue of common shares	200	—
Repayment of debenture to parent	(200)	—
Repayment of commercial paper and other loans	(11)	(20)
Dividends paid	(475)	(330)
	(486)	(350)
Investment Activities		
Bond sales and maturities	18,164	16,989
Mortgage loan repayments	2,173	1,688
Stock sales	1,088	1,066
Real estate sales	147	571
Change in loans to policyholders	(61)	(30)
Investment in Canada Life Financial Corporation	—	143
Investment in subsidiaries	—	469
Reinsurance transactions	(268)	—
Investment in bonds	(19,798)	(18,111)
Investment in mortgage loans	(2,186)	(1,765)
Investment in stocks	(1,044)	(424)
Investment in real estate	(192)	(103)
	(1,977)	493
Increase in cash and certificates of deposit	321	1,368
Cash and certificates of deposit, beginning of year	1,901	533
Cash and certificates of deposit, end of year	\$ 2,222	\$ 1,901
Supplementary Cash Flow Information		
Income taxes paid	\$ 296	\$ 210
Interest paid	\$ 59	\$ 49

SEGREGATED FUNDS – CONSOLIDATED ASSETS

(in \$ millions)

December 31	2004	2003
Bonds	\$ 9,306	\$ 7,731
Mortgage loans	1,613	1,466
Stocks	34,889	30,872
Real estate	3,423	3,119
Cash and certificates of deposit	3,467	2,292
Income due and accrued	176	148
Other assets (liabilities)	(660)	(754)
	<u>\$ 52,214</u>	<u>\$ 44,874</u>

SEGREGATED FUNDS CONSOLIDATED STATEMENT OF CHANGES IN ASSETS

(in \$ millions)

For the years ended December 31	2004	2003
Segregated funds assets, beginning of year	\$ 44,874	\$ 18,504
Additions (deductions):		
Policyholder deposits	9,334	4,576
Net investment income	932	417
Net realized capital gains (losses) on investments	1,502	(192)
Net unrealized capital gains (losses) on investments	982	3,576
Unrealized gains (losses) due to change in foreign exchange rates	(90)	342
Disposition of subsidiaries	—	(442)
Canada Life Financial Corporation at date of acquisition (note 2)	—	22,045
Policyholder withdrawals	(5,475)	(3,986)
Net transfer from General Fund	155	34
	<u>7,340</u>	<u>26,370</u>
Segregated funds assets, end of year	\$ 52,214	\$ 44,874

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in \$ millions except per share amounts)

1. Basis of Presentation and Summary of Accounting Policies

The consolidated financial statements of The Great-West Life Assurance Company (Great-West or the Company) include the accounts of its subsidiary companies and have been prepared in accordance with Subsection 331(4) of the Insurance Companies Act, which states that, except as otherwise specified by the Office of the Superintendent of Financial Institutions Canada (OSFI), the consolidated financial statements are to be prepared in accordance with Canadian generally accepted accounting principles for life insurance enterprises, including the accounting requirements of OSFI. The principal subsidiaries at December 31, 2004 are:

London Insurance Group (LIG)
Canada Life Financial Corporation (CLFC)
GWL Investment Management Ltd. (GWLIM)
GWL Realty Advisors Inc.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The significant accounting policies are as follows:

(a) Portfolio Investments

Investments in bonds and mortgage loans (debt securities) are carried at amortized cost net of any allowance for credit losses. The difference between the proceeds on the sale of a debt security and its amortized cost is considered to be an adjustment of future portfolio yield. Net realized gains and losses are included in Deferred Net Realized Gains and are deferred and amortized over the period to maturity of the security sold.

Investments in stocks (equity securities) are carried at cost plus a moving average market value adjustment of \$264 (\$231 in 2003). The carrying value is adjusted towards market value at a rate of 5% per quarter. Net realized gains and losses are included in Deferred Net Realized Gains and are deferred and amortized to income at a rate of 5% per quarter on a declining-balance basis.

Investments in real estate are carried at cost net of write-downs and allowances for loss, plus a moving average market value adjustment of \$160 (\$155 in 2003). The carrying value is adjusted towards market value at a rate of 3% per quarter. Net realized gains and losses are included in Deferred Net Realized Gains and are deferred and amortized to income at a rate of 3% per quarter on a declining-balance basis.

Market values for publicly traded bonds are determined using quoted market prices. Market values for bonds that are not actively traded and for mortgages are determined by discounting expected future cash flows related to the securities at market interest rates. Market values for public stocks are generally determined by the closing sale price of the security on the exchange where it is principally traded. Market values for stocks for which there is no active market are determined by management. Market values for all properties are determined annually by management based on a combination of the most recent independent appraisal and current market data available. Appraisals of all properties are conducted at least once every three years by independent qualified appraisers.

(b) Derivative Financial Instruments

The Company uses derivative products as risk management instruments to hedge or manage asset, liability and capital positions including revenues. Policy guidelines prohibit the use of derivative instruments for speculative purposes.

The Company documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are used in hedging transactions to specific assets and liabilities on the balance sheet or to specific firm commitments or transactions. The Company also assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items.

Derivative financial instruments used by the Company are summarized in note 18.

The accounting policies for derivative financial instruments used for hedging correspond to those used for the underlying hedged position. In the event a designated hedged item is sold, extinguished, matures or ceases to be effective prior to the termination of the related derivative instrument, any subsequent realized or unrealized gains or losses on such derivative instruments are recognized in income.

(c) Foreign Currency Translation

The Company follows the current rate method of foreign currency translation for its net investment in its self-sustaining foreign operations. Under this method, assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet dates and all income and expense items are translated at an average of daily rates. The Currency Translation Account is presented separately on the Consolidated Balance Sheet. The Company has entered into certain daily average rate forward exchange contracts to manage volatility associated with the translation of a portion of revenues and investment in foreign operations into Canadian dollars. Foreign currency translation gains and losses on foreign currency transactions of the Company are included in net investment income and are not material to the financial statements of the Company.

(d) Costs Associated with Exit and Disposal Activities

In March 2003, the CICA issued Emerging Issue Committee (EIC) Abstract EIC-135 Accounting for Costs Associated with Exit and Disposal Activities (Including Costs Incurred in a Restructuring) for restructurings initiated after March 31, 2003. The standard replaces EIC-60 Liability Recognition for Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring) and requires recognition of integration and restructuring costs in income when they are incurred. See note 3 for the impact of this standard on the financial statements of the Company.

(e) Loans to Policyholders

Loans to policyholders are shown at their unpaid balance and are fully secured by the cash surrender values of the policies.

(f) Funds Held by Ceding Insurers/Funds Held Under Reinsurance Contracts

Under certain forms of reinsurance contracts, it is customary for the ceding insurer to retain possession of the assets supporting the liabilities ceded. The Company records an amount receivable from the ceding insurer or payable to the reinsurer representing the premium due. Investment revenue on these funds withheld is credited by the ceding insurer.

(g) Goodwill and Intangible Assets

Goodwill represents the excess of purchase consideration over the fair value of net assets of acquired subsidiaries of the Company. Intangible assets represent finite life and indefinite life intangible assets of acquired subsidiaries of the Company. Finite life intangible assets include the value of customer contracts and distribution channels. These finite life intangible assets are amortized on a straight-line over 20 years and 30 years respectively. The Company tests goodwill and intangible assets for impairment on an annual basis by reviewing the fair value of the related businesses and intangible assets. Goodwill and intangible assets are written down when impaired.

(h) Revenue Recognition

Premiums for all types of insurance contracts, and contracts with limited mortality or morbidity risk, are generally recognized as revenue when due. When premiums are recognized, actuarial liabilities are computed, with the result that benefits and expenses are matched with such revenue.

The Company's premium revenues, total paid or credited policyholders and policy liabilities are all shown net of reinsurance amounts ceded to, or including amounts assumed from, other insurers.

Fee and other income is recognized when earned and primarily includes fees earned from the management of segregated fund assets, fees earned on the administration of administrative services only (ASO) Group health contracts and fees earned from investment management services.

(i) Software Costs

Included in other assets are software acquisition and development costs that are carried at cost less accumulated amortization computed on a straight-line basis over the estimated useful life to a maximum of 10 years. Impairment exists when the carrying value of the capitalized software costs exceeds the undiscounted cash flows expected from the use of the software, and is measured as the excess of the carrying value over the fair value.

(j) Participating Account

The shareholder portion of participating earnings represents, as restricted by law, a portion of net income before policyholder dividends of the participating account, \$41 in 2004 (\$18 in 2003). The actual payment of the shareholder portion of participating earnings is legally determined as a percentage of policyholder dividends paid. \$37 of shareholder surplus (\$34 in 2003) that has been recognized but not paid is dependent on future payment of dividends to participating policyholders.

The Canada Life Assurance Company (Canada Life) participating account is comprised of two main subdivisions. The liabilities for participating policies issued or assumed by Canada Life prior to demutualization are held in closed block sub-accounts. These liabilities for guaranteed and other non-guaranteed benefits are determined using best estimate assumptions. If at any time the value of the assets allocated to these policies were, in the opinion of the Appointed Actuary, less than the assets required in the long term to support the liabilities of these policies and the future reasonable expectations of the policyholders, assets having a sufficient value to rectify the situation would be transferred first from the additional ancillary sub-accounts maintained in the participating account for this purpose and then, if the deficiency is expected to be permanent, from the shareholder account. Any such transfers from the shareholder account would be recorded as a charge to shareholder net income.

The second main subdivision comprises the open block sub-accounts containing all liabilities in respect of new participating policies issued on or after demutualization. On demutualization, \$50 of seed capital was transferred from shareholder surplus to the participating account. Subject to approval by OSFI, the seed capital amount, together with a reasonable rate of return, may be transferred to the shareholder account if the seed capital is no longer required to support the new participating policies. Transfers of seed capital to the shareholder account would be returns of capital and would be recorded as adjustments to shareholder surplus. A reasonable rate of return on seed capital will be recognized as income in the shareholder account and as an expense in the participating account when paid. During the second quarter of 2004, following OSFI approval, \$21 of this seed capital was transferred from the participating account to the shareholder account (see note 12).

1. Basis of Presentation and Summary of Accounting Policies (cont'd)

(k) Income Taxes

The Company uses the liability method of income tax allocation. Current income taxes are based on taxable income and future income taxes are based on taxable temporary differences. The income tax rates used to measure income tax assets and liabilities are those rates enacted or substantially enacted at the balance sheet date.

(l) Pension Plans and Other Post-Retirement Benefits

The Company maintains contributory and non-contributory defined benefit pension plans for certain of its employees and agents. The Company also maintains defined contribution pension plans for certain of its employees and agents.

The defined benefit plans provide pensions based on length of service and final average pay. Certain pension payments are indexed to cost of living increases either on an ad hoc basis or on a guaranteed basis. As future salary levels affect the amount of employee future benefits, the projected benefit method prorated on services has been used to determine the accrued benefit obligation. The assets supporting the trustee pension plans of the Company are held in separate trustee pension funds. The remaining benefits are included in other liabilities and are supported by general assets of the Company. The recognized current cost of pension benefits is charged to earnings.

The Company also provides post-retirement health, dental and life insurance benefits to eligible employees, agents and their dependents. Retirees share in the cost of benefits through deductibles, co-insurance and caps on benefits. As the amount of some of the post-retirement benefits other than pensions depend on future salary levels and future cost escalation, the projected benefit method prorated on services has been used to determine the accrued benefit obligation. The amount of the obligation for these benefits is included in other liabilities and is supported by general assets of the Company. The recognized current cost of post-retirement non-pension benefits is charged to earnings.

Past service costs, transitional assets and transitional obligations associated with pension and post-retirement plans are amortized over the expected average remaining service life of the employee/agent group. Prior years' cumulative experience gains or losses in excess of the greater of 10% of the beginning of year plan assets or accrued benefit obligation are amortized over the expected average remaining service life of the employee/agent group.

During 2004, the Company adopted the recommendations of the CICA Handbook Section 3461 Employee Future Benefits. The amended standard requires enhanced disclosure of the Company's Pension Plans and Other Post Retirement Benefits (see note 15). Other than the disclosures required in note 15, this change in accounting policy did not have a material impact on the financial statements of the Company.

(m) Stock-Based Compensation

Great-West Lifeco Inc. (Lifeco), the Company's parent, has a stock option plan that provides for the granting of options on common shares of Lifeco to certain officers and employees of Lifeco and its affiliates, which is described in note 14. Effective January 1, 2004, the CICA Handbook Section 3870 Stock-Based Compensation and Other Stock-Based Payments was amended to require expense treatment of all stock-based compensation and payments at grant date for options granted beginning on or after January 1, 2002. This change in accounting policy has been applied retroactively without restatement of prior years' financial statements, and results in a charge of \$2 to shareholder surplus, a charge of \$1 to participating policyholder surplus and an increase in contributed surplus of \$3.

(n) Earnings Per Common Share

Earnings per common share is calculated using net income after preferred share dividends and the weighted average number of common shares outstanding of 2,033,315 (1,616,057 in 2003).

(o) Comparative Figures

Certain of the 2003 amounts presented for comparative purposes have been reclassified to conform with the presentation adopted in the current year.

2. Acquisition and Dispositions

(a) Acquisition of Canada Life Financial Corporation

On July 10, 2003, Lifeco acquired all of the outstanding common shares of CLFC, the parent company of Canada Life, that were not already beneficially owned by the Company at a price of \$44.50 per CLFC common share, representing an aggregate transaction value of \$7.2 billion, including estimated transaction costs.

Immediately after the acquisition, Lifeco conveyed its ownership of CLFC common shares to Great-West at cost. The transfer of assets and liabilities was recorded at book value.

The details of the acquisition are as follows:

	Participating account	Shareholder account	Total
Value of assets acquired:			
Cash and certificates of deposit	\$ 251	\$ 2,142	\$ 2,393
Bonds	4,031	18,572	22,603
Mortgage loans	1,042	6,358	7,400
Stocks	694	757	1,451
Real estate	157	807	964
Loans to policyholders	716	339	1,055
Other invested assets	9	458	467
Intangible assets	—	997	997
Other assets	121	1,470	1,591
	<u>\$ 7,021</u>	<u>\$ 31,900</u>	<u>\$ 38,921</u>
Value of liabilities assumed:			
Policy liabilities	6,588	25,143	31,731
Commercial paper and other loans	—	594	594
Income taxes payable	39	74	113
Net deferred gains on portfolio investments sold	332	842	1,174
Other liabilities	19	1,591	1,610
Non-controlling interests	—	492	492
Participating policyholder surplus	43	—	43
Preferred shares	—	162	162
	<u>7,021</u>	<u>28,898</u>	<u>35,919</u>
Fair value of net assets acquired	<u>\$ —</u>	<u>\$ 3,002</u>	<u>\$ 3,002</u>
Total purchase consideration:			
Cash			\$ 2,215
Great-West common shares			4,902
Fair value of Lifeco options exchanged for CLFC options			10
Value of CLFC common shares already owned			21
Transaction and related costs, net of income taxes			23
			<u>\$ 7,171</u>
Goodwill on acquisition			<u>\$ 4,169</u>
The source of the cash provided as part of the consideration was as follows:			
— Bank Facility ⁽¹⁾			\$ 1,194
— Internal Liquidity ⁽²⁾			1,021
			<u>\$ 2,215</u>

(1) The one year bank facility was assumed from Lifeco. The outstanding loan balance under this facility was \$0 on December 31, 2004 and 2003.

(2) Internal liquidity was provided by the Company in the form of sales of invested assets supporting shareholder liabilities and surplus other than actuarial liabilities.

During 2004, the Company finalized its accounting for the CLFC acquisition and allocated the goodwill to the major reportable segments of the Company. As a result, the allocation of the purchase price was revised (see note 6).

The acquired intangible assets include distribution channels and customer contract related intangible assets which are subject to amortization and brands and customer contract related intangible assets which are not subject to amortization (see note 6). Included in other liabilities are accruals for CLFC costs related to planned exit and consolidation activities involving operations and systems, compensation costs and facilities (see note 3).

Results of CLFC are included in the Summary of Consolidated Operations from the date of acquisition.

2. Acquisition and Dispositions (cont'd)

(b) Sale of Lifestyle Retirement Communities

During 2003, London Life Insurance Company (London Life), completed its previously announced sale of Lifestyle Retirement Communities Ltd., a wholly-owned subsidiary of London Life, which resulted in an after-tax gain of \$35 in the participating account and \$17 in the shareholder account.

3. Restructuring Costs

Following the acquisition of CLFC on July 10, 2003, the Company developed a plan to restructure and integrate the operations of CLFC with its operations. Costs are expected to be incurred as a result and consist primarily of exit and consolidation activities involving operations, facilities, systems and compensation costs.

Significant administrative activities performed by CLFC prior to July 10, 2003 are being exited, restructured and integrated with the activities performed by Great-West and London Life. In Canada, selected administrative functions, facilities and systems are being restructured and integrated with Great-West and London Life functions. These activities are expected to be substantially completed by the end of 2005. In Europe, selected administrative functions, facilities and systems are being restructured and non-strategic international operations and locations are being exited. These activities are expected to be substantially completed by the end of 2005.

Expected total restructuring costs were revised during the second quarter of 2004 from \$488 to \$439. The revised expected total restructuring costs primarily reflect lower compensation costs being incurred. The costs include \$350 that was recognized as part of the finalization of the allocation of the purchase equation of CLFC, a reduction of \$62 from December 31, 2003 estimate of \$412. Costs of \$89 are expected to be charged to income as incurred, an increase of \$13 from December 31, 2003 estimate of \$76. These costs are included in the Summary of Consolidated Operations in the restructuring line and included in the Corporate segment (note 23).

The following details the amount and status of restructuring costs:

	Expected total costs	Amounts utilized – 2003	Amounts utilized – 2004	Total amounts utilized	Balance December 31, 2004
Eliminating duplicate systems	\$ 127	\$ 12	\$ 50	\$ 62	\$ 65
Exiting and consolidating operations	110	25	68	93	17
Compensation costs	202	83	100	183	19
	<u>\$ 439</u>	<u>\$ 120</u>	<u>\$ 218</u>	<u>\$ 338</u>	<u>\$ 101</u>
Accrued on acquisition	\$ 350	\$ 94	\$ 176	\$ 270	\$ 80
Expense as incurred	89	26	42	68	21
	<u>\$ 439</u>	<u>\$ 120</u>	<u>\$ 218</u>	<u>\$ 338</u>	<u>\$ 101</u>

4. Portfolio Investments

(a) Carrying values and estimated market values of portfolio investments are as follows:

		2004		2003	
		Carrying value	Market value	Carrying value	Market value
Bonds	– government	\$ 16,012	\$ 16,757	\$ 16,241	\$ 16,484
	– corporate	22,665	23,638	20,701	21,426
		<u>38,677</u>	<u>40,395</u>	<u>36,942</u>	<u>37,910</u>
Mortgage loans	– residential	6,245	6,580	6,448	6,725
	– non-residential	6,443	6,756	6,238	6,516
		<u>12,688</u>	<u>13,336</u>	<u>12,686</u>	<u>13,241</u>
Stocks		2,682	3,071	2,665	2,895
Real estate		1,496	1,684	1,433	1,587
		<u>\$ 55,543</u>	<u>\$ 58,486</u>	<u>\$ 53,726</u>	<u>\$ 55,633</u>

- (b) The significant terms and conditions and interest rate ranges of applicable fixed-term portfolio investments gross of provisions, are as follows:

2004	Carrying value				Principal amount	Effective interest rate ranges
	Term to maturity					
	1 year or less	1–5 years	Over 5 years			
Short-term bonds	\$ 1,646	\$ —	\$ —	\$ 1,646	\$ 1,642	1.0%–3.0%
Bonds	2,041	9,180	25,918	37,139	41,689	1.3%–16.8%
Mortgage loans	65	4,476	8,163	12,704	12,380	3.0%–13.8%
	\$ 3,752	\$ 13,656	\$ 34,081	\$ 51,489	\$ 55,711	

2003	Carrying value				Principal amount	Effective interest rate ranges
	Term to maturity					
	1 year or less	1–5 years	Over 5 years			
Short-term bonds	\$ 1,600	\$ —	\$ —	\$ 1,600	\$ 1,594	0.8%–2.9%
Bonds	2,409	9,055	23,998	35,462	40,540	1.2%–17.8%
Mortgage loans	106	4,469	8,114	12,689	13,291	3.6%–13.8%
	\$ 4,115	\$ 13,524	\$ 32,112	\$ 49,751	\$ 55,425	

- (c) Included in portfolio investments are the following:

- (i) Non-performing loans:

	2004	2003
Bonds	\$ 91	\$ 200
Mortgage loans	13	4
	<u>\$ 104</u>	<u>\$ 204</u>

Non-performing loans include non-accrual loans and foreclosed real estate held for sale. Bond and mortgage investments are reviewed on a loan by loan basis to determine non-performing status. Loans are classified as non-accrual when:

- (1) payments are 90 days or more in arrears, except in those cases where, in the opinion of management, there is justification to continue to accrue interest; or
- (2) the Company no longer has reasonable assurance of timely collection of the full amount of the principal and interest due; or
- (3) modified/restructured loans are not performing in accordance with the contract.

Where appropriate, provisions are established or write-offs made to adjust the carrying value to the net realizable amount. Wherever possible the fair value of collateral underlying the loans or observable market price is used to establish net realizable value.

- (ii) Allowance for credit losses:

	2004	2003
Bonds & mortgage loans	<u>\$ 124</u>	<u>\$ 123</u>

- (iii) Changes in the allowance for credit losses are as follows:

	2004	2003
Balance, beginning of year	\$ 123	\$ 78
Provision for credit losses	(5)	10
Recoveries of prior write offs	(16)	(11)
Write offs	—	(34)
CLFC at date of acquisition	—	111
Sale of U.S. subsidiaries	—	(41)
Other (including foreign exchange rate changes)	22	10
Balance, end of year	<u>\$ 124</u>	<u>\$ 123</u>

The allowance for credit losses is supplemented by the provision for future credit losses included in actuarial liabilities.

4. Portfolio Investments (cont'd)

- (d) Investments in real estate include an asset value allowance of \$19 (\$22 in 2003) which provides for deterioration of market values associated with real estate held for investment.
- (e) Also included in portfolio investments are modified/restructured loans of \$16 (\$16 in 2003) that are performing in accordance with their current terms.
- (f) Net investment income includes amortization of net deferred realized gains on portfolio investments and unrealized gains on stocks and real estate as follows:

	2004	2003
Bonds	\$ 214	\$ 140
Mortgage loans	43	23
Stocks	123	88
Real estate	38	26
	<u>\$ 418</u>	<u>\$ 277</u>

- (g) The balance of net deferred gains on portfolio investments sold is comprised of the following:

	2004	2003
Bonds	\$ 1,423	\$ 1,479
Mortgage loans	118	118
Stocks	319	350
Real estate	159	151
	<u>\$ 2,019</u>	<u>\$ 2,098</u>

5. Pledging of Assets

The amount of assets which have a security interest by way of pledging is outlined below by major pledging activity:

	2004	2003
Derivative transactions	\$ 5	\$ 12
In respect of reinsurance agreements	26	35
	<u>\$ 31</u>	<u>\$ 47</u>

6. Goodwill and Intangible Assets

(a) Goodwill

The carrying value of goodwill and changes in carrying value of goodwill are as follows:

	2004	2003
Balance, beginning of year	\$ 5,184	\$ 1,068
Acquisition of CLFC	—	4,103
Changes in allocation of purchase price of CLFC	66	—
Other acquisitions by subsidiaries	1	14
Sale by subsidiaries	(2)	—
Changes in foreign exchange rates	(1)	(1)
Balance, end of year	<u>\$ 5,248</u>	<u>\$ 5,184</u>
Shareholder	\$ 5,248	\$ 5,184
Participating policyholder	—	—
	<u>\$ 5,248</u>	<u>\$ 5,184</u>

The change in the allocation of the purchase price of CLFC consists of decreases in the values of invested and other assets acquired of \$91, increases in the value of intangible assets of \$127, increases in the value of policy liabilities assumed of \$164 and decreases in the value of other liabilities assumed of \$62.

The Company has finalized its accounting for the CLFC acquisition and allocated all the goodwill to the shareholder segment of the Company.

(b) Intangible Assets

The carrying value of intangible assets and changes in the carrying value of intangible assets are as follows:

	2004			
	Cost	Accumulated amortization	Changes in foreign exchange rates	Carrying value, end of year
Indefinite life intangible assets				
– Brands and trademarks	\$ 410	\$ –	\$ 4	\$ 414
– Customer contract related	354	–	–	354
– Shareholder portion of acquired future Participating account profits	354	–	–	354
	1,118	–	4	1,122
Finite life intangible assets				
– Customer contract related	281	(21)	–	260
– Distribution channels	127	(4)	3	126
	408	(25)	3	386
Total	\$ 1,526	\$ (25)	\$ 7	\$ 1,508

	2003			
	Cost	Accumulated amortization	Changes in foreign exchange rates	Carrying value, end of year
Indefinite life intangible assets				
– Brands and trademarks	\$ 410	\$ –	\$ 5	\$ 415
– Customer contract related	354	–	–	354
– Shareholder portion of acquired future Participating account profits	354	–	–	354
	1,118	–	5	1,123
Finite life intangible assets				
– Customer contract related	281	(7)	1	275
Total	\$ 1,399	\$ (7)	\$ 6	\$ 1,398

During 2004, as part of the revision of the allocation of the purchase price of CLFC, the Company identified \$127 of additional finite life intangible assets relating to distribution channels of CLFC. During 2003, the Company had identified \$870 of intangible assets as part of the allocation of the purchase price of CLFC.

7. Other Assets

Other assets consist of the following:

	2004	2003
Premiums in course of collection	\$ 349	\$ 350
Interest due and accrued	663	669
Future income taxes (note 17)	154	191
Fixed assets	182	235
Prepaid expenses	74	78
Accounts receivable	402	434
Accrued pension asset (note 15)	179	222
Other	4	11
	\$ 2,007	\$ 2,190

8. Actuarial Liabilities**(a) Composition of Actuarial Liabilities and Related Supporting Assets**

(i) The composition of actuarial liabilities is as follows:

	Participating		Non-participating		Total	
	2004	2003	2004	2003	2004	2003
Group Insurance	\$ —	\$ —	\$ 1,459	\$ 1,557	\$ 1,459	\$ 1,557
Individual Insurance & Investment Products	15,744	14,836	15,430	15,171	31,174	30,007
Europe/Reinsurance	1,895	1,962	11,518	12,189	13,413	14,151
Total	\$ 17,639	\$ 16,798	\$ 28,407	\$ 28,917	\$ 46,046	\$ 45,715

(ii) The composition of the assets supporting liabilities and surplus are as follows:

	2004					
	Bonds	Mortgage loans	Stocks	Real estate	Other	Total
Carrying Value						
Participating	\$ 10,036	\$ 4,139	\$ 643	\$ 126	\$ 2,695	\$ 17,639
Non-participating						
Group Insurance	905	363	22	1	168	1,459
Individual Insurance & Investment Products	9,526	4,600	430	15	859	15,430
Europe/Reinsurance	7,440	768	221	547	2,542	11,518
Other liabilities	8,373	2,710	590	322	3,246	15,241
Participating surplus	641	18	552	70	177	1,458
Capital and surplus	1,756	90	224	415	5,877	8,362
Total Carrying Value	\$ 38,677	\$ 12,688	\$ 2,682	\$ 1,496	\$ 15,564	\$ 71,107
Fair Value	\$ 40,395	\$ 13,336	\$ 3,071	\$ 1,684	\$ 15,564	\$ 74,050

	2003					
	Bonds	Mortgage loans	Stocks	Real estate	Other	Total
Carrying Value						
Participating	\$ 8,315	\$ 3,859	\$ 289	\$ 37	\$ 4,298	\$ 16,798
Non-participating						
Group Insurance	729	398	39	—	391	1,557
Individual Insurance & Investment Products	9,052	5,028	389	—	702	15,171
Europe/Reinsurance	8,649	640	648	582	1,670	12,189
Other liabilities	8,422	2,742	728	403	3,801	16,096
Participating surplus	709	9	401	67	194	1,380
Capital and surplus	1,066	10	171	344	5,953	7,544
Total Carrying Value	\$ 36,942	\$ 12,686	\$ 2,665	\$ 1,433	\$ 17,009	\$ 70,735
Fair Value	\$ 37,910	\$ 13,241	\$ 2,895	\$ 1,587	\$ 17,009	\$ 72,642

Cash flows of assets supporting actuarial liabilities are matched within reasonable limits. Changes in the fair value of these assets are essentially offset by changes in the fair value of actuarial liabilities.

Changes in the fair value of these assets backing capital and surplus, less related income taxes, would result in a corresponding change in surplus over time in accordance with the investment accounting policies.

The carrying value of assets backing actuarial liabilities plus the portion of deferred gains associated with actuarial liabilities is \$47,446 (\$47,161 in 2003). The fair value of these assets is \$49,040 (\$48,148 in 2003).

(b) Nature of Actuarial Liabilities

Actuarial liabilities represent the amounts equal to the carrying value of the assets that, taking into account the other pertinent items on the balance sheet, will be sufficient to discharge the Company's obligations over the term of the liability for its insurance policies and to pay expenses related to the administration of those policies. Actuarial liabilities are determined using generally accepted actuarial practices, according to standards established by the Canadian Institute of Actuaries. In accordance with these accepted practices, actuarial liabilities have been determined in accordance with the Canadian Asset Liability Method.

(c) Changes in Actuarial Liabilities

The change in actuarial liabilities is as follows:

	Participating		Non-participating		Total	
	2004	2003	2004	2003	2004	2003
Balance, beginning of year	\$ 16,798	\$ 10,979	\$ 28,917	\$ 14,921	\$ 45,715	\$ 25,900
CLFC acquisition	–	5,974	–	24,140	–	30,114
Normal change – new business	(6)	(21)	2,317	1,341	2,311	1,320
– in force	941	961	(3,235)	(1,500)	(2,294)	(539)
Valuation assumption changes	(7)	(35)	(47)	(97)	(54)	(132)
Foreign exchange rate changes	(64)	32	(355)	(1,002)	(419)	(970)
Bulk reinsurance	–	(997)	–	(5,201)	–	(6,198)
Sale of subsidiary	–	(95)	–	(3,685)	–	(3,780)
Business movement to/from affiliates	(23)	–	810	–	787	–
Balance, end of year	\$ 17,639	\$ 16,798	\$ 28,407	\$ 28,917	\$ 46,046	\$ 45,715

In 2004, non-participating liabilities for Canadian individual life insurance were reduced in recognition of improved mortality and improvements in asset-liability matching; non-participating liabilities were updated for annuitant longevity assumptions resulting in an increase in the UK and a decrease in Canada; and non-participating liabilities were reduced by improved experience on group health claims in the UK.

In 2003, non-participating liabilities in Canada reflect the release of excess interest rate provisions, as well as lower expense rates and improved morbidity (offset by an increase of \$66 in other policy liabilities). Valuation assumptions for Canadian participating business were updated for improved mortality and lower expense rates.

(d) Actuarial Assumptions

In the computation of actuarial liabilities, valuation assumptions have been made regarding rates of mortality/morbidity, investment returns, levels of operating expenses and rates of policy termination. The valuation assumptions use best estimates of future experience together with a margin for misestimation and experience deterioration. These margins have been set in accordance with guidelines established by the Canadian Institute of Actuaries and are necessary to provide reasonable assurance that actuarial liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

The methods for arriving at these valuation assumptions are outlined below:

Mortality – A life insurance mortality study is carried out annually for each major block of insurance business. The results of each study are used to update the Company's experience valuation mortality tables for that business. Where there is insufficient data, use is made of the latest industry experience to derive an appropriate valuation mortality assumption. Although mortality improvements have been observed for many years, for life insurance valuation the mortality provisions (including margins) do not allow for future improvements.

Annuitant mortality is also studied regularly and the results used to modify established industry experience annuitant mortality tables. Mortality improvement has been projected to occur throughout future years for annuitants.

Morbidity – The Company uses industry developed experience tables modified to reflect emerging company experience. Both claim incidence and termination are monitored regularly and emerging experience is factored into the current valuation.

Property and Casualty Reinsurance – Actuarial liabilities for property and casualty reinsurance written by London Reinsurance Group (LRG), a subsidiary of London Life, are determined using accepted actuarial practices for life insurers in Canada. Reflecting the long-term nature of the business, reserves have been established using cash flow valuation techniques including discounting. The reserves are based on cession statements provided by ceding companies. Sometimes LRG management reduces cession statement amounts to reflect management's interpretation of the treaty. Differences will be resolved via audits and other loss mitigation activities. In addition reserves also include an amount for incurred but not reported losses (IBNR) which may differ significantly from the ultimate loss development. The estimates and underlying methodology are continually reviewed and updated and adjustments to estimates are reflected in income. LRG analyzes the emergence of claims experience against expected assumptions for each reinsurance contract separately and at the portfolio level. If necessary, a more in-depth analysis is undertaken of the cedant experience.

Investment Returns – The assets which correspond to the liability categories are segmented. For each segment, projected cash flows from the current assets and liabilities are used in the Canadian Asset Liability Method to determine actuarial liabilities. Cash flows from assets are reduced to provide for asset default losses. Testing under several interest rate scenarios (including increasing and decreasing rates) is done to provide for reinvestment risk.

Expenses – Unit expense studies are updated regularly to determine an appropriate estimate of future expenses for the liability type being valued. Expense improvements are not projected. An inflation assumption is incorporated in the estimate of future expenses.

Policy Termination – Studies to determine rates of policy termination are updated regularly to form the basis of this estimate. Industry data is also available and is useful where the Company has no experience with specific types of policies or its exposure is limited.

Policyholder Dividends – Future policyholder dividends are included in the determination of actuarial liabilities for participating policies, with the assumption that policyholder dividends will change in the future to reflect the experience of the respective participating accounts, consistent with the participating policyholder dividend policies.

8. Actuarial Liabilities (cont'd)

(e) Risk Management**(i) Interest rate risk**

Interest rate risk is managed by effectively matching portfolio investments with liability characteristics. Hedging instruments are employed where necessary when there is a lack of suitable permanent investments to minimize loss exposure to interest rate changes.

(ii) Credit risk

Credit risk is managed through an emphasis on quality in the investment portfolio and by maintenance of issuer, industry and geographic diversification standards.

Projected investment returns are reduced to provide for future credit losses on assets. The net effective yield rate reduction averaged .18% (.19% in 2003).

The following outlines the future asset credit losses provided for in actuarial liabilities. These amounts are in addition to the allowance for asset losses included with assets:

	2004	2003
Participating	\$ 466	\$ 393
Non-participating	372	378
	<u>\$ 838</u>	<u>\$ 771</u>

(iii) Reinsurance risk

Maximum benefit amount limits per insured life (which vary by line of business) are established for life and health insurance and reinsurance is purchased for amounts in excess of those limits.

Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honour their obligations could result in losses to the Company. The Company evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

As a result of reinsurance, actuarial liabilities have been reduced by the following amounts, which include the reinsurance transactions described in note 19:

	2004	2003
Participating	\$ 1,060	\$ 1,079
Non-participating	10,320	11,193
	<u>\$ 11,380</u>	<u>\$ 12,272</u>

Certain of the reinsurance contracts are on a funds withheld basis where the Company retains the assets supporting the reinsured actuarial liabilities, thus minimizing the exposure to significant losses from reinsured insolvency on those contracts.

(iv) Foreign exchange risk

If the assets backing actuarial liabilities are not matched by currency, changes in foreign exchange rates can expose the Company to the risk of foreign exchange losses not offset by liability decreases.

Foreign exchange risk is managed whenever possible by matching assets with related liabilities by currency and through the use of derivative instruments such as forward contracts and cross-currency swaps. These financial instruments allow the Company to modify an asset position to more closely match actual or committed liability currency.

(v) Liquidity risk

Liquidity risk is the risk that the Company will have difficulty raising funds to meet commitments. The liquidity needs of the Company are closely managed through cash flow matching of assets and liabilities and forecasting earned and required yields, to ensure consistency between policyholder requirements and the yield of assets. Approximately 60% of policyholder liabilities are non-cashable prior to maturity or subject to market value adjustments.

(f) Sensitivity of Actuarial Assumptions

The actuarial assumption most susceptible to change in the short run is future investment returns. One way of measuring the interest rate risk associated with this assumption is to determine the effect on the present value of the projected net asset and liability cash flows of the non-participating business of the Company of an immediate 1% increase or an immediate 1% decrease in the level of interest rates. These interest rate changes will also impact the projected cash flows. When the change to the projected cash flows is included in the calculation, the effect of an immediate 1% increase in interest rates would be to decrease the present value of these projected cash flows by \$34 and the effect of an immediate 1% decrease in interest rates would be to decrease the present value of these net projected cash flows by \$5. The level of actuarial liabilities established under the Canadian Asset Liability Method of valuation provides for interest rate movements significantly greater than the 1% shifts shown above.

9. Debentures and Other Borrowings

(a) Debentures and other borrowings consist of the following:

	2004		2003	
	Carrying value	Fair value	Carrying value	Fair value
Short Term				
Revolving credit in respect of reinsurance business with interest rates from 2.2% to 3.2% (1.3% to 2.9% in 2003) maturing within one year	\$ 20	\$ 20	\$ 29	\$ 29
Long Term				
Operating:				
Notes payable with interest of 8.0% (8.0% in 2003)	10	10	12	12
Capital:				
Great-West				
6.74% debentures due November 24, 2036, unsecured	200	200	200	217
Canada Life				
Subordinated debentures due September 19, 2011 bearing a fixed rate of 8% until 2006 and, thereafter, at a rate equal to the Canadian 90-day Bankers' Acceptance rate plus 1%, unsecured	250	270	250	278
Subordinated debentures due December 11, 2013 bearing a fixed rate of 5.8% until 2008 and, thereafter, at a rate equal to the Canadian 90-day Bankers' Acceptance rate plus 1%, unsecured	200	214	200	213
6.40% debentures due December 11, 2028, unsecured,	100	106	100	104
Acquisition related fair market value adjustment	35	—	39	—
	585	590	589	595
London Life				
6.75% debentures due August 10, 2015, unsecured	—	—	200	223
	785	790	989	1,035
Total Long Term	795	800	1,001	1,047
Total Debentures and Other Borrowings	\$ 815	\$ 820	\$ 1,030	\$ 1,076
Interest expense on long-term borrowings included in net investment income	\$ 59		\$ 49	

(b) Principal repayments of long-term borrowings

	Operating	Capital	Total
2005	\$ 1	\$ —	\$ 1
2006	1	—	1
2007	1	—	1
2008	1	—	1
2009	1	—	1
2010 and thereafter	5	750	755
	\$ 10	\$ 750	\$ 760

10. Other Liabilities

Other liabilities consist of the following:

	2004	2003
Current income taxes	\$ 372	\$ 589
Accounts payable	490	779
Liability for restructuring costs (note 3)	80	318
Post retirement benefits provision (note 15)	388	374
Bank overdraft	201	141
Future income taxes (note 17)	262	—
Other	1,624	1,531
	<u>\$ 3,417</u>	<u>\$ 3,732</u>

11. Non-Controlling Interests

The Company controlled a 100% equity interest in LIG, CLFC, Great-West Life Capital Trust (GWLCT) and Canada Life Capital Trust (CLCT) at December 31, 2004 and 2003.

(a) The non-controlling interest of Great-West and its subsidiaries reflected in the Summary of Consolidated Operations is as follows:

	2004	2003
Preferred shareholder dividends of subsidiaries	\$ 17	\$ 13
Non-controlling interests in capital stock and surplus	—	1
Total non-controlling interests	<u>\$ 17</u>	<u>\$ 14</u>
Distribution on Great-West Life Capital Trust Securities	\$ 21	\$ 21
Distribution on Canada Life Capital Trust Securities	28	13
Trust securities held by consolidated group as temporary investments	(18)	(6)
Total distribution on Capital Trust Securities	<u>\$ 31</u>	<u>\$ 28</u>

(b) The carrying value of non-controlling interests consist of the following:

	2004	2003
Preferred shareholders of subsidiaries		
London Life Series C, 4.9% Non-Cumulative Preferred Shares	\$ 200	\$ 200
CLFC Series B, 6.25% Non-Cumulative Preferred Shares	145	145
Acquisition related fair market value adjustment	14	16
	<u>\$ 359</u>	<u>\$ 361</u>
Capital trust units		
Trust units issued by Great-West Life Capital Trust	350	350
Trust units issued by Canada Life Capital Trust	450	450
Acquisition related fair market value adjustment	37	41
Trust securities held by consolidated group as temporary investments	(186)	(375)
	<u>\$ 651</u>	<u>\$ 466</u>

Great-West Life Capital Trust Securities (GREATs)

GWLCT issued \$350 of non-voting GREATs which constitutes Tier 1 capital for Canadian regulatory purposes. Each holder of the GREATs will be entitled to receive a semi-annual non-cumulative fixed cash distribution of \$29.975 per GREATs, representing an annual yield of 5.995%, payable out of GWLCT's net distributable funds. Subject to regulatory approval, GWLCT may redeem the GREATs, in whole or in part, at any time on or after December 31, 2007 and, under limited circumstances may redeem all, but not less than all of the GREATs prior to December 31, 2007.

Canada Life Capital Trust Securities (CLiCS)

CLCT issued \$450 of non-voting CLiCS, consisting of \$300 of non-voting CLiCS – Series A and \$150 of non-voting CLiCS – Series B which constitutes Tier 1 capital for Canadian regulatory purposes. Each holder of the CLiCS – Series A and CLiCS – Series B will be entitled to receive a semi-annual non-cumulative fixed cash distribution of \$33.395 and \$37.645 per CLiCS, respectively, representing an annual yield of 6.679% and 7.529%, payable out of CLCT's net distributable funds. Subject to regulatory approval, CLCT may redeem the CLiCS, in whole or in part, at any time on or after June 30, 2007 and, under limited circumstances may redeem all, but not less than all of the CLiCS prior to June 30, 2007.

Companies within the consolidated group have purchased positions in both GREATs and CLiCS as temporary investments, which are shown as a reduction to non-controlling interests of \$186 at December 31, 2004 (\$375 at December 31, 2003).

12. Participating Policyholder

The Company controls a 100% equity interest in London Life and Canada Life. The participating operations and the participating balance sheets are presented as combined or consolidated in the Company's financial statements. The following tables provide additional information related to the operations and financial position of each entity.

(a) Net Income, Participating Policyholder

	2004	2003
Net income attributable to participating policyholder before policy dividends		
Great-West	\$ 107	\$ 105
London Life	623	613
Canada Life	185	45
Policyholder dividends		
Great-West	(91)	(89)
London Life	(523)	(531)
Canada Life	(194)	(46)
Net income	\$ 107	\$ 97

(b) Participating Account Surplus

	2004	2003
(i) Participating policyholder undistributed surplus		
Great-West	\$ 360	\$ 345
London Life	1,095	995
Canada Life	17	47
	1,472	1,387
(ii) Currency translation account		
Great-West	–	–
London Life	(14)	(10)
Canada Life	–	3
	(14)	(7)
	\$ 1,458	\$ 1,380

During 2004, following OSFI approval, \$21 of seed capital related to the Irish open block of the participating account, together with accrued interest of \$5 (after tax), was transferred from the participating account to the shareholder account. The repatriation resulted in an increase in shareholder surplus of \$21 and a decrease in non-controlling interest of \$21.

13. Capital Stock

Authorized

Unlimited preferred shares

Unlimited common shares

	2004		2003	
	Number	Stated value	Number	Stated value
Issued and outstanding:				
Preferred shares:				
Series L, 5.20% Non-Cumulative Preferred Shares	2,093,032	\$ 52	2,093,032	\$ 52
Series O, 5.55% Non-Cumulative Preferred Shares	6,278,671	157	6,278,671	157
Series Q, 5.00% Non-Cumulative Preferred Shares	40,000	1	40,000	1
Balance, end of year	8,411,703	\$ 210	8,411,703	\$ 210
Common shares:				
Balance, beginning of year	2,028,067	\$ 5,695	1,236,575	\$ 793
Issued to parent	31,490	200	—	—
Issued to parent on transfer of CLFC	—	—	791,492	4,902
Balance, end of year	2,059,557	\$ 5,895	2,028,067	\$ 5,695
Total capital stock		\$ 6,105		\$ 5,905

The Series L, 5.20% Non-Cumulative Preferred Shares are redeemable at the option of the Company for \$25 per share and are convertible to Series M Preferred Shares at the option of the holder, in each case on October 31, 2007 and on October 31 in every fifth year thereafter, subject to the requisite statutory approval.

The Series O, 5.55% Non-Cumulative Preferred Shares are redeemable at the option of the Company for \$25 per share and are convertible into Series P Preferred Shares at the option of the holder on October 31, 2010 and on October 31 in every fifth year thereafter, subject to the requisite statutory approval.

The Series Q, 5.00% Non-Cumulative Preferred Shares are redeemable at the option of the Company for \$25 per share on the later of December 31, 2007 and the date on which there are no GREATs (note 11) outstanding, subject to regulatory approval.

On November 1, 2004 the Company issued 31,490 common shares to Lifeco at a stated value of \$200.

On July 10, 2003 as part of the transfer of Lifeco's ownership of CLFC to the Company, 791,492 common shares were issued to Lifeco for a value of \$4,902.

14. Stock-Based Compensation

Lifeco has a stock option plan (the Lifeco stock option plan) that provides for the granting of options on common shares of Lifeco to certain officers and employees of Lifeco and its affiliates. 589,000 options were granted during 2004 (2,136,000 in 2003) to officers and employees of the Company under the Lifeco stock option plan. The weighted-average fair value of options granted during the year ended December 31, 2004 was \$6.12 per option (\$4.95 per option granted during 2003). The fair value of each option was estimated using the Black-Scholes option pricing model with the following weighted average assumptions used for those options granted in 2004 and 2003 respectively: dividend yield 2.571% (2.820%), expected volatility 24.472% (26.220%), risk-free interest rate 4.328% (4.370%), and expected life of 7 years (7 years).

Compensation expense of \$5 million has been recognized in the Summary of Consolidated Operations for the year ended December 31, 2004. For the year ended December 31, 2003, the intrinsic value based method of accounting was applied and as a result no compensation expense was recorded for options granted under the Lifeco stock option plan. Had the fair value based method of accounting been applied, compensation expense, net of tax, would have been recorded for the options granted under the Company's plan since January 1, 2002. The Company's net income for the year ended December 31, 2003 on this basis would have been reduced by \$3 million.

15. Pension Plans and Other Post Retirement Benefits**(a) Costs Recognized**

	All pension plans		Other post-retirement benefits	
	2004	2003	2004	2003
Amounts arising from events in the period				
Defined benefit service cost	\$ 72	\$ 50	\$ 13	\$ 8
Defined contribution service cost	1	1	—	—
Employee contributions	(11)	(8)	—	—
Employer service cost	62	43	13	8
Past service cost	17	—	—	—
Interest cost on the accrued pension obligation	133	101	24	21
Actual return on plan assets	(157)	(216)	—	—
Actuarial (gain) loss on accrued benefit obligation	99	53	(47)	104
Curtailment gain	(11)	—	(4)	—
Cost incurred	143	(19)	(14)	133
Adjustments to reflect costs recognized				
Difference between actual and expected return on plan assets	(5)	100	—	—
Difference between actuarial gains (losses) arising during the period and actuarial gains (losses) amortized	(90)	(54)	50	(104)
Amortization of transitional obligations	1	1	—	—
Difference between past service costs arising in period and past service costs amortized	(17)	—	—	—
Decrease in valuation allowance	(9)	—	—	—
Net benefit cost recognized for the period	\$ 23	\$ 28	\$ 36	\$ 29

(b) Status

	Defined benefit pension plans		Other post-retirement benefits	
	2004	2003	2004	2003
Fair value of plan assets	\$ 2,452	\$ 2,384	\$ —	\$ —
Accrued benefit obligation	(2,390)	(2,213)	(419)	(473)
Funded status	62	171	(419)	(473)
Employer contributions after the measurement date	1	—	1	—
Unamortized past service costs	17	—	—	—
Unamortized net losses	118	31	74	126
Unamortized transitional obligation	5	—	—	—
Valuation allowance	(68)	(7)	—	—
Accrued benefit asset (liability)	\$ 135	\$ 195	\$ (344)	\$ (347)
Recorded in:				
Other assets	\$ 179	\$ 222	\$ —	\$ —
Other liabilities	(44)	(27)	(344)	(347)
Accrued benefit asset (liability)	\$ 135	\$ 195	\$ (344)	\$ (347)

(c) Plans with Accrued Benefit Obligations in Excess of Plan Assets

	Defined benefit pension plans		Other post-retirement benefits	
	2004	2003	2004	2003
Plans with plan assets				
Fair value of plan assets	\$ 1,124	\$ 1,108	\$ —	\$ —
Accrued benefit obligation	(1,276)	(1,204)	—	—
Plan deficit	\$ (152)	\$ (96)	\$ —	\$ —
Plans without plan assets				
Fair value of plan assets	\$ —	\$ —	\$ —	\$ —
Accrued benefit obligation	(119)	(93)	(419)	(473)
Plan deficit	\$ (119)	\$ (93)	\$ (419)	\$ (473)

The above plans' assets and accrued benefit obligation are disclosed separately as the accrued benefit obligations exceed the fair value of the plans' assets. These amounts have been included in previously aggregated results.

15. Pension Plans and Other Post-Retirement Benefits (cont'd)

(d) Measurement and Valuation

Measurement date is November 30. In years prior to 2004, the measurement date was December 31. The dates of the actuarial valuations for funding purposes for the funded defined benefit pension plans (weighted by accrued benefit obligation) are:

Most recent valuation	% of plans
December 31, 2001	49%
December 31, 2002	20%
December 31, 2003	27%
April 1, 2004	4%
Next required valuation	% of plans
December 31, 2004	58%
December 31, 2005	20%
December 31, 2006	18%
April 1, 2007	4%

The fair value of assets is used to determine the expected return on assets.

(e) Cash Payments

	All pension plans		Other post-retirement benefits	
	2004	2003	2004	2003
Contributions – Funded defined benefit plans	\$ 11	\$ 21	\$ –	\$ –
– Funded defined contribution plans	1	1	–	–
Benefits paid for unfunded plans	3	2	14	12
Total cash payment	\$ 15	\$ 24	\$ 14	\$ 12

(f) Reconciliations

	Defined benefit pension plans		Other post-retirement benefits	
	2004	2003	2004	2003
(i) Accrued benefit obligation, beginning of year	\$ 2,213	\$ 1,043	\$ 473	\$ 221
Adjustment to opening balance	(16)	–	(6)	–
Reclassified as "Other Liabilities"	–	–	(20)	–
Employer current service cost	61	42	13	8
Employee contributions	11	8	–	–
Interest on accrued pension obligation	133	101	24	21
Actuarial (gains) losses	99	53	(47)	104
Benefits paid	(104)	(83)	(13)	(12)
Past service cost	17	–	–	–
Acquisition	–	1,043	–	132
Curtailment loss	(11)	–	(4)	–
Foreign exchange rate changes	(13)	6	(1)	(1)
Accrued benefit obligation, end of year	\$ 2,390	\$ 2,213	\$ 419	\$ 473
(ii) Fair value of assets, beginning of year	\$ 2,384	\$ 1,044	–	–
Employee contributions	11	8	–	–
Employer contributions	14	21	13	12
Return on plan assets	157	216	–	–
Benefits paid	(104)	(82)	(13)	(12)
Acquisition	–	1,171	–	–
Foreign exchange rate changes	(10)	6	–	–
Fair value of assets, end of year	\$ 2,452	\$ 2,384	\$ –	\$ –

(g) Asset Allocation by Major Category Weighted by Plan Assets

	Defined benefit pension plans	
	2004	2003
Equity securities	49%	49%
Debt securities	40%	40%
All other assets	11%	11%
	100%	100%

No plan assets are directly invested in the Company's or related parties' securities. Nominal amounts may be invested in the Company's or related parties' securities through investment in pooled funds.

(h) Significant Assumptions

	Defined benefit pension plans		Other post-retirement benefits	
	2004	2003	2004	2003
Weighted average assumptions used to determine benefit cost				
Discount rate	6.14%	6.75%	6.25%	6.75%
Expected long-term rate of return on plan assets	6.88%	7.75%	—	—
Rate of compensation increase	4.88%	5.25%	4.98%	5.25%
Weighted average assumptions used to determine accrued benefit obligation				
Discount rate	5.92%	6.13%	6.25%	6.25%
Rate of compensation increase	4.99%	4.88%	5.01%	4.92%

Weighted average health care trend rates

In determining the expected cost of health care benefits, health care costs were assumed to increase by 7.13% in 2004 and gradually decrease to a level of 4.73% by 2009. For 2004, the impact of a 1% increase or decrease to assumed health care rates on the accrued post-retirement benefit obligation is a \$64 increase and a \$50 decrease, respectively, and on the post-retirement benefit expense is a \$8 increase and a \$6 decrease, respectively.

16. Related Party Transactions

In the normal course of business, the Company provided insurance benefits to other companies within the Power Financial Corporation group of companies. In all cases, transactions were at market terms and conditions.

During the year, the Company provided and received from IGM Financial Inc. and its subsidiaries (IGM), a member of the Power Financial Corporation group of companies, certain administrative services. The Company also provided life insurance, annuity and disability insurance products under a distribution agreement with IGM. London Life provided distribution services to IGM. All services were provided on terms and conditions at least as favourable as market terms and conditions.

During 2004, the Company and segregated funds maintained by the Company purchased residential mortgages of \$77 from IGM (\$161 in 2003). The Company sold residential mortgages of \$17 (\$37 in 2003) to segregated funds maintained by the Company and \$110 (\$115 in 2003) to segregated funds maintained by London Life. All transactions were at market terms and conditions.

During 2004, the Company repaid \$200 principal amount of 6.75% Debentures due to Lifeco (note 8). Interest expense of \$11 (\$14 in 2003) on this debt is included in the financial statements.

The Company has 6.74% Debentures due to Lifeco which have an outstanding balance of \$200 (\$200 in 2003) (note 8). Interest expense of \$14 on this debt is included in the financial statements (\$14 in 2003).

The Company has interest bearing notes receivable from GWL&A which have an outstanding balance of \$32 (\$40 in 2003). \$2 (\$7 in 2003) is due on demand and non interest bearing at December 31, 2004 (4.59% at December 31, 2003). \$30 matures on October 1, 2006 and bears interest at 5.4%.

16. Related Party Transactions (cont'd)

During 2003 the Company issued \$1.2 billion of 5.75% debentures to its parent, Lifeco. The Company made a corresponding investment of \$1.2 billion in preferred shares of a wholly-owned subsidiary of Lifeco. The Company has legally enforceable rights to settle these financial instruments on a net basis, and the Company intends to exercise these rights. Accordingly, the investment and debentures are offset in the consolidated financial statements of the Company.

On December 31, 2003, Canada Life sold its two U.S. subsidiaries to GWL&A for cash proceeds of \$303. As a result of this sale transaction, the Company recorded a gain of \$55 in contributed surplus and \$5 in participating policyholder surplus. The U.S. subsidiaries sold had acquired Canada Life business in prior years and the sale resulted in \$2,845 of liabilities ceded to a related party rather than a subsidiary.

During the first quarter of 2004, the Company recaptured all of the U.S. group insurance business that had been ceded to GWL&A in 2003. The acquired premiums of \$332 associated with the recapture transaction have been recorded in the Summary of Consolidated Operations as an increase of premium income with a corresponding increase to the change in actuarial liabilities. For the Consolidated Balance Sheet, the transaction resulted in an increase in cash and other assets of \$170, an increase in policyholder liabilities of \$308 and a decrease to the liability for funds held under reinsurance contracts of \$138.

17. Income Taxes

(a) Future income taxes consist of the following taxable temporary differences on:

	2004	2003
Policy liabilities	\$ 421	\$ 425
Portfolio investments	(473)	(237)
Other	(56)	3
Future income taxes receivable (payable)	\$ (108)	\$ 191
Recorded in:		
Other assets	\$ 154	\$ 191
Other liabilities	(262)	—
	\$ (108)	\$ 191

(b) The Company's effective income tax rate is derived as follows:

	2004	2003
Combined basic Canadian federal and provincial tax rate	35.5%	36.6%
Increase (decrease) in the income tax rate resulting from:		
Non-taxable investment income	(10.2)	(9.8)
Lower effective tax rates on income not subject to tax in Canada	(6.3)	(3.2)
Investment income tax	—	2.4
Large corporations tax	0.2	0.2
Impact of rate changes on future income taxes	—	0.7
Miscellaneous	1.3	1.3
Effective income tax rate applicable to current year	20.5	28.2
Decrease in the income tax rate resulting from prior years' tax adjustments	(3.0)	(3.7)
Effective income tax rate	17.5%	24.5%

At December 31, 2004, CLFC had tax loss carryforwards, primarily in Canada, totalling \$1,071 (\$749 in 2003). The future tax benefit of these tax loss carryforwards has been recognized, to the extent that they are more likely than not to be realized, in the amount of \$380 (\$244 in 2003) in future tax assets. The Company will realize this benefit in future years through a reduction in current income taxes payable.

2004 results include a \$45 (\$56 in 2003) net reduction of provisions for income taxes due to favourable tax experience arising from the completion of tax audits. The impact of this reduction in provisions was an increase in after tax income of \$45 in 2004 (\$56 in 2003) in the shareholder account.

18. Off Balance Sheet Financial Instruments

In the normal course of managing exposure to fluctuations in interest and foreign exchange rates, and to market risks, the Company is an end user of various derivative financial instruments that are not reported on the balance sheet. Contracts are either exchange traded or over-the-counter traded with counterparties that are highly rated financial institutions.

(a) The following table summarizes the Company's derivative portfolio and related credit exposure:

2004	Notional amount	Maximum credit risk	Future credit exposure	Credit risk equivalent	Risk weighted equivalent
Interest Rate Contracts					
Futures	\$ 126	\$ —	\$ —	\$ —	\$ —
Swaps	1,089	36	5	41	8
Options purchased	655	59	9	68	14
	1,870	95	14	109	22
Foreign Exchange Contracts					
Forward contracts	842	—	9	9	2
Cross-currency swaps	2,748	329	169	498	121
	3,590	329	178	507	123
Other Derivative Contracts					
Equity contracts	453	18	24	42	8
Credit default swaps	88	1	—	1	—
	541	19	24	43	8
	\$ 6,001	\$ 443	\$ 216	\$ 659	\$ 153
2003	Notional amount	Maximum credit risk	Future credit exposure	Credit risk equivalent*	Risk weighted equivalent
Interest Rate Contracts					
Futures	\$ 441	\$ —	\$ —	\$ —	\$ —
Swaps	796	15	5	20	8
Options purchased	718	56	11	67	13
	1,955	71	16	87	21
Foreign Exchange Contracts					
Forward contracts	1,293	8	13	21	4
Cross-currency swaps	1,799	146	110	256	65
	3,092	154	123	277	69
Other Derivative Contracts					
Equity contracts	433	67	23	86	19
	\$ 5,480	\$ 292	\$ 162	\$ 450	\$ 109

*Credit risk equivalent for equity contracts includes a reduction for collateral of \$4.

(b) The following table provides the use, notional amount and estimated fair value of the Company's derivative portfolio:

2004	Contracts held for asset/liability management				Contracts held for other purposes				
	Notional amount			Total estimated fair value	Notional amount			Total estimated fair value	
	1 year or less	1–5 years	Over 5 years		1 year or less	1–5 years	Over 5 Years		
Interest Rate Contracts									
Futures	\$ 126	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	
Swaps	671	170	248	27	—	—	—	—	
Options purchased	—	—	655	60	—	—	—	—	
	797	170	903	87	—	—	—	—	
Foreign Exchange Contracts									
Forward contracts	46	—	—	(1)	796	—	—	(34)	
Cross-currency swaps	192	822	1,619	284	20	95	—	13	
	238	822	1,619	283	816	95	—	(21)	
Other Derivative Contracts									
Equity contracts	275	—	—	15	178	—	—	3	
Credit default swaps	—	88	—	—	—	—	—	—	
	275	88	—	15	178	—	—	3	
	\$ 1,310	\$ 1,080	\$ 2,522	\$ 385	\$ 994	\$ 95	\$ —	\$ (18)	

18. Off Balance Sheet Financial Instruments (cont'd)

2003	Contracts held for asset/liability management				Contracts held for other purposes			
	Notional amount			Total estimated fair value	Notional amount			Total estimated fair value
	1 year or less	1-5 years	Over 5 years		1 year or less	1-5 years	Over 5 years	
Interest rate contracts								
Futures	\$ 441	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Swaps	226	298	272	3	—	—	—	—
Options purchased	—	—	718	56	—	—	—	—
	667	298	990	59	—	—	—	—
Foreign exchange contracts								
Forward contracts	74	—	—	(2)	1,219	—	—	(30)
Cross-currency swaps	88	633	944	103	20	87	27	13
	162	633	944	101	1,239	87	27	(17)
Other derivative contracts								
Equity contracts	278	2	—	61	153	—	—	6
	\$ 1,107	\$ 933	\$ 1,934	\$ 221	\$ 1,392	\$ 87	\$ 27	\$ (11)

(c) *Interest Rate Contracts*

Interest rate swaps are used to hedge interest rate risk related to asset and liability management. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which payments are based. Interest income is adjusted to reflect the interest receivable and interest payable under the interest rate swaps.

Put options are purchased to protect against significant drops in equity markets. Premiums paid are amortized to net investment income over the life of the options. Gains and losses realized upon exercise of the option are recognized in net investment income.

Interest rate swaptions are used to hedge interest rate risk related to asset and liability management. Premiums paid are amortized over the term of the swaption. Realized gains and losses are amortized over the remaining term of the contract.

Foreign Exchange Contracts

Cross-currency swaps are used to hedge foreign currency risk related to asset and liability management. Under these swaps principal amounts and fixed and floating interest payments may be exchanged in different currencies. The carrying value on the balance sheet is adjusted to reflect the amount of the currency swapped and interest income is adjusted to reflect the interest receivable and interest payable under the swaps. The Company also enters into certain foreign exchange forward contracts to hedge certain product liabilities and to hedge a portion of the translation of its foreign revenues as well as a portion of both operating results and net investment in its foreign operations. The realized and unrealized gains and losses on contracts for product liabilities are included in net investment income offsetting the respective realized and unrealized gains and losses on the underlying product liabilities and a corresponding market value adjustment in the amounts paid or credited to policyholders. The realized gains and losses on contracts related to revenues are recognized in net investment income. The gains and losses on contracts related to net investment in foreign operations are included in the cumulative translation account which is part of policyholder and shareholder equity. Hedge effectiveness is reviewed quarterly through critical terms matching and correlation testing.

Other Derivative Contracts

Equity index swaps and futures are used to hedge certain product liabilities and are marked to market with realized and unrealized gains and losses included in net investment income offsetting the respective realized and unrealized gains and losses on the underlying product liabilities and a corresponding market value adjustment in the amounts paid or credited to policyholders. Equity index swaps are also used as substitutes for cash instruments and are marked to market with realized and unrealized gains and losses included in net investment income.

The Company uses credit derivatives to manage its credit exposures and for risk diversification in its investment portfolio. Unrealized gains and losses are deferred on the balance sheet and are recognized in net investment income in the period in which the underlying investment is recognized.

19. Reinsurance Transactions

During the first quarter of 2004, the Company ceded 100% of its U.S. group insurance business to a third party on an indemnity reinsurance basis. The ceded premiums of \$416 associated with the transaction have been recorded in the Summary of Consolidated Operations as a reduction of premium income with a corresponding reduction to the change in actuarial liabilities. For the Consolidated Balance Sheet, this transaction resulted in a reduction of cash and other assets of \$416, a reduction of policyholder liabilities of \$384, and a reduction of other liabilities of \$32.

Reinsurance transactions in 2003 included:

- (a) A number of bulk reinsurance ceded contracts were executed by the Company with third parties on a funds withheld basis. Premiums related to the initial cession of in force business were \$2,716.
- (b) A reinsurance agreement was executed between CLFC and GWL&A, a related party, whereby GWL&A reinsured 80% of the individual and group policy liabilities of CLFC's US branch. Premiums related to the initial cession of this business were \$3,563. Invested assets of \$1,714 were transferred to GWL&A for the coinsurance arrangement and a liability of \$1,662 established as part of funds held under reinsurance contracts was established for the invested assets the Company continues to hold under the modified coinsurance arrangements.

As a result of these two transactions, total ceded premiums of \$6,279 were recorded on the Summary of Consolidated Operations in 2003 as a reduction to premium income with a corresponding reduction to the change in actuarial liabilities and provision for claims. For the Consolidated Balance Sheet in 2003, the transactions resulted in a reduction in policyholder liabilities of \$4,592 and an increase in funds held under reinsurance contracts of the same amount.

20. Contingent Liabilities

The Company and its subsidiaries are subject to legal actions, including proposed class actions, arising in the normal course of business. It is not expected that any of these legal actions will have a material adverse effect on the consolidated financial position of the Company.

In addition, there are two proposed class proceedings in Ontario regarding the participation of the London Life participating policyholder account in the financing of the acquisition of LIG in 1997 by Great-West. These proceedings are in their early stages, and it is difficult to predict the outcome with certainty. However, based on information presently known, these proceedings are not expected to have a material adverse effect on the consolidated financial position of the Company.

21. The Event of September 11, 2001

As part of its reinsurance business, Canada Life has special risk reinsurance contracts with other insurers and reinsurers on which it has incurred losses as a result of the event of September 11, 2001. In 2001, Canada Life set up a total provision of \$131 pre-tax (\$85 after-tax) relating to these claims. Canada Life's remaining net provision is \$79 pre-tax as at December 31, 2004 (\$83 pre-tax in 2003). The provision is recorded net of estimated reinsurance recoveries and catastrophe coverage.

Canada Life has entered into, and may in the future enter into, negotiations, arbitration proceedings or litigation with certain of its retrocessionaires in order to collect all amounts owed by such parties. Based on the information and developments to date, Canada Life believes that it will succeed in enforcing its rights in respect of each of its reinsurance agreements.

LRG results in 2001 included a charge of \$82 after-tax (\$73 in the shareholder account and \$9 in the participating policyholder account) relating to estimated claims provisions from the event of September 11, 2001. The payment of claims to the end of 2004 has not resulted in a change to those estimates, and no further charges have been recorded.

22. Commitments

(a) Syndicated Letters of Credit

Clients residing in the United States are required pursuant to their insurance laws to obtain letters of credit issued on LRG's behalf from approved banks in order to further secure LRG's obligations under certain reinsurance contracts.

LRG has a syndicated letter of credit facility providing U.S. \$970 in letters of credit capacity. The facility has two tranches. One tranche, arranged in 2004 in the amount of U.S. \$600, is for a one year term to November 29, 2005. The second tranche, arranged in 2002 in the amount of U.S. \$370, has a three year term expiring November 15, 2005. Under the terms and conditions of the facility, collateralization may be required dependant on the future credit ratings of specific LRG subsidiaries and London Life or if a default under the letters of credit agreement occurs. LRG has issued U.S. \$748 in letters of credit under the facility as at December 31, 2004. LRG had issued U.S. \$925 under a previous letter of credit facility at December 31, 2003. In addition, LRG has other bilateral letter of credit facilities totalling U.S. \$36 (2003 – U.S. \$40). Bonds and debentures in the amount of Cdn \$2 (2003 – Cdn \$4) have been pledged to support these letters of credit.

(b) Disclosure of Guarantees

The Company has adopted Accounting Guideline 14 (AcG-14), Disclosure of Guarantees, effective January 1, 2003, which identifies disclosure requirements for certain guarantees or groups of similar guarantees, even when the likelihood of the guarantor having to make any payments is slight.

The syndicated letters of credit described above meet the definition of guarantees.

(c) Crown Life Acquisition Agreements

As part of the 1999 acquisition by CLFC of the majority of Crown Life Insurance Company's (Crown Life) insurance operations, CLFC has the option, or may be obligated, to acquire the common shares of Crown Life and, through assumption reinsurance, the remaining insurance business of Crown Life at any time after January 1, 2004, subject to certain conditions, in which case CLFC would receive assets with a value equal to the liabilities assumed. The purchase price for the shares would be the fair value of the assets backing Crown Life's common shareholders' equity.

23. Segmented Information

The major reportable segments are the participating and shareholder operations of the Company. The Company operates through Great-West and its wholly owned subsidiaries LIG and CLFC.

Following the acquisition of CLFC by Lifeco the former Reinsurance & Specialty General Insurance business unit of the Company became the Europe/Reinsurance business unit, reflecting the management structure and organization of the Company. The Europe/Reinsurance business unit consists of reinsurance operations and the Company's operations in the United Kingdom, Ireland and Germany.

The major business units within the segments are:

Group Insurance	– life, health and disability insurance products for group clients.
Individual Insurance & Investment Products	– life insurance and disability insurance products for individual clients, and accumulation and payout annuity products for both group and individual clients.
Europe/Reinsurance	– life, health and disability insurance products for individual and group clients and accumulation and payout annuity products in the United Kingdom, Ireland and Germany, as well as life, property and casualty, accident and health, annuity coinsurance and specialty insurance in specific niche markets.
Corporate	– business activities and operations that are not associated with the above business units.

(a) Consolidated Operations

For the year ended December 31, 2004	Shareholder				Participating		Total company
	Group insurance	Individual insurance & investment products	Europe/ Reinsurance	Corporate	Total	Total	
Income:							
Premium income	\$ 2,532	\$ 2,130	\$ 5,966	\$ (29)	\$ 10,599	\$ 1,944	\$ 12,543
Net investment income	290	1,006	852	144	2,292	1,434	3,726
Fee and other income	114	547	399	23	1,083	1	1,084
Total income	2,936	3,683	7,217	138	13,974	3,379	17,353
Benefits and Expenses:							
Paid or credited to policyholders	1,828	2,312	6,260	19	10,419	2,815	13,234
Other	769	771	535	40	2,115	406	2,521
Restructuring costs	–	–	–	42	42	–	42
Amortization of finite life intangible assets	–	–	5	13	18	–	18
Distribution on Capital Trust Securities	–	–	–	31	31	–	31
Net operating income before income taxes	339	600	417	(7)	1,349	158	1,507
Income taxes	86	138	61	(72)	213	51	264
Net income before non-controlling interests	253	462	356	65	1,136	107	1,243
Non-controlling interests	–	–	–	17	17	–	17
Net income	253	462	356	48	1,119	107	1,226
Net income – participating policyholder	–	–	–	–	–	107	107
Net income – shareholders	253	462	356	48	1,119	–	1,119
Preferred shareholder dividends	–	–	–	11	11	–	11
Net income – common shareholder	\$ 253	\$ 462	\$ 356	\$ 37	\$ 1,108	\$ –	\$ 1,108

Notes to Consolidated Financial Statements

For the year ended December 31, 2003	Shareholder				Participating		
	Group insurance	Individual insurance & investment products	Europe/ Reinsurance	Corporate	Total	Total	Total company
Income:							
Premium income	\$ 2,428	\$ 1,054	\$ 4,592	\$ 145	\$ 8,219	\$ 1,718	\$ 9,937
Bulk reinsurance – initial ceded premium	(2,716)	–	–	(2,566)	(5,282)	(997)	(6,279)
	(288)	1,054	4,592	(2,421)	2,937	721	3,658
Net investment income	252	766	726	245	1,989	1,223	3,212
Fee and other income	95	412	126	27	660	–	660
Total income	59	2,232	5,444	(2,149)	5,586	1,944	7,530
Benefits and Expenses:							
Paid or credited to policyholders	(799)	1,289	5,007	(2,334)	3,163	1,404	4,567
Other	590	525	282	75	1,472	326	1,798
Restructuring costs	–	–	–	26	26	–	26
Amortization of finite life intangible assets	–	–	–	7	7	–	7
Distribution on Capital Trust Securities	–	–	–	28	28	–	28
Net operating income before income taxes	268	418	155	49	890	214	1,104
Income taxes	74	110	6	(37)	153	117	270
Net income before non-controlling interests	194	308	149	86	737	97	834
Non-controlling interests	–	–	1	13	14	–	14
Net income	194	308	148	73	723	97	820
Net income – participating policyholder	–	–	–	–	–	97	97
Net income – shareholders	194	308	148	73	723	–	723
Preferred shareholder dividends	–	–	–	11	11	–	11
Net income – common shareholder	\$ 194	\$ 308	\$ 148	\$ 62	\$ 712	\$ –	\$ 712

(b) Consolidated Total Assets:

	2004			2003		
	Shareholder	Participating	Total	Shareholder	Participating	Total
Assets						
Invested assets	\$ 37,401	\$ 22,606	\$ 60,007	\$ 36,217	\$ 21,604	\$ 57,821
Goodwill and intangible assets	6,756	–	6,756	6,582	–	6,582
Other assets	3,840	504	4,344	5,592	740	6,332
Total assets	\$ 47,997	\$ 23,110	\$ 71,107	\$ 48,391	\$ 22,344	\$ 70,735
Segregated funds assets			52,214			44,874
Total assets under administration			\$ 123,321			\$ 115,609

(c) Geographic Distribution of Total Assets:

	2004	2003
	Assets	Assets
Canada	\$ 47,151	\$ 46,795
International	23,956	23,940
	\$ 71,107	\$ 70,735

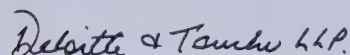
AUDITORS' REPORT

To the Policyholders, Shareholders and Directors of The Great-West Life Assurance Company

We have audited the consolidated balance sheets of The Great-West Life Assurance Company and the statements of segregated funds consolidated assets as at December 31, 2004 and 2003 and the summaries of consolidated operations, the consolidated statements of surplus, the consolidated statements of cash flows and the segregated funds consolidated statements of changes in assets for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company and its segregated funds as at December 31, 2004 and 2003 and the results of its operations and its cash flows and the changes in assets of its segregated funds for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Winnipeg, Manitoba

February 17, 2005

APPOINTED ACTUARY'S REPORT

To the Policyholders, Shareholders and Directors of The Great-West Life Assurance Company

I have valued the policy liabilities of The Great-West Life Assurance Company for its consolidated balance sheet at December 31, 2004 and their change in its summary of consolidated operations for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations, and the consolidated financial statements fairly present the result of the valuation.



Allan S. Edwards

Fellow, Canadian Institute of Actuaries

Winnipeg, Manitoba

February 17, 2005

PARTICIPATING POLICYHOLDER DIVIDEND POLICY

This policyholder dividend policy has been established by the Board of Directors and is subject to change from time to time. It applies to participating insurance policies.

Earnings are generated in the participating account when the experience in the participating account for factors such as investment income, asset defaults, mortality, lapses, expenses and taxes is collectively more favourable than the assumptions for these factors used when establishing the guaranteed values associated with participating insurance policies. Great-West may distribute a portion of the earnings as declared by the Board of Directors in accordance with this policyholder dividend policy.

Participating insurance policies are eligible for a periodic policyholder dividend. The amount available for distribution from the participating account as policyholder dividends is determined at least annually following a review of the actual and expected experience of the participating account, taking into account significant changes in factors such as investment income, asset defaults, mortality, lapses, expenses and taxes. The amount available for distribution in any year will vary upwards or downwards depending on the actual and expected experience. The amount available is also influenced by considerations such as: the need to retain earnings as surplus to, among other purposes, ensure financial strength and stability, finance new business growth, provide for transitions during periods of major change and smooth fluctuations in experience; practical considerations and limits; legal requirements; and prevailing industry practices.

The amount available for distribution as policyholder dividends is divided among classes of policyholders by setting the policyholder dividend scale. Great-West follows the contribution principle when setting the policyholder dividend scale. This means the amount available for distribution as policyholder dividends is divided among classes of policyholders over the long term in proportion to their contribution to earnings. A contribution to earnings will be made from a particular class of policies to the extent that the experience for that particular class is different from the assumptions that were used when establishing the guaranteed values for that class.

When applying the contribution principle, attention is paid to ensuring reasonable equity is achieved between classes of policyholders and between generations of policyholders, taking into account practical considerations and limits, legal requirements and prevailing industry practices. For certain blocks of policies, the policyholder dividend scale may be determined using methods which are designed to approximate the contribution to earnings of those blocks.

Termination dividends are not payable under any participating insurance policies issued by Great-West.

The policyholder dividends are credited according to the terms of each policy.

Prior to the declaration of policyholder dividends by the Board, the actuary of the Company will confirm that: the proposed policyholder dividends are in accordance with this policyholder dividend policy and in compliance with applicable legislative and regulatory requirements; and applicable professional practice standards have been followed.

As permitted by the *Insurance Companies Act*, Great-West may distribute to the shareholder account a percentage of the amount distributed to policyholders in respect of a financial year.

Policy illustrations will reflect changes to the policyholder dividend scale as soon as practical.

Approved by the Board of Directors

October 28, 2004

Effective December 31, 2004

SUBSIDIARIES OF THE GREAT-WEST LIFE ASSURANCE COMPANY

December 31, 2004

Name	Principal Office Address	Carrying Value (1) (\$ millions)	Voting Share Ownership (%)
Gold Circle Insurance Company	Winnipeg, Manitoba	2	100.0%
GWL Investment Management Ltd.	Winnipeg, Manitoba	3	100.0%
GWL Realty Advisors Inc.	Winnipeg, Manitoba	—	100.0%
CGWLL Inc.	Winnipeg, Manitoba	6	100.0%
London Insurance Group Inc.	London, Ontario	2,454	100.0%
Canada Life Financial Corporation	Toronto, Ontario	7,176	100.0%

(1) The carrying value of shares is shown at the Company's equity interest in the subsidiaries

FIVE YEAR SUMMARY

(in \$ millions except per share amounts)

	2004	2003	2002	2001	2000
At December 31					
Life insurance in force (face amount)	\$ 1,371,927	\$ 1,063,650	\$ 313,106	\$ 306,884	\$ 294,408
Annuities in force (funds held)	71,671	54,629	23,523	24,318	24,331
Health insurance in force (annualized premiums)	5,531	4,543	3,474	3,142	2,817
Total assets under administration	123,321	115,609	54,558	53,764	51,990
For the Year Ended December 31					
Premiums:					
Life insurance, guaranteed annuities and insured health products	\$ 12,543	\$ 9,937	\$ 8,198	\$ 7,451	\$ 9,976
Self-funded premium equivalents (ASO contracts)	1,863	1,675	1,355	1,238	8,797
Segregated funds deposits:					
Individual products	5,270	2,768	1,649	1,586	2,776
Group products	4,064	1,808	1,163	1,045	5,325
Total premiums and deposits	23,740	16,188	12,365	11,320	26,874
Bulk reinsurance – initial ceded premium	–	(6,279)	–	–	–
Net premiums and deposits	\$ 23,740	\$ 9,909	\$ 12,365	\$ 11,320	\$ 26,874
Condensed Summary of Operations					
Income					
Premium income	\$ 12,543	\$ 9,937	\$ 8,198	\$ 7,451	\$ 9,976
Bulk reinsurance – initial ceded premium	–	(6,279)	–	–	–
	12,543	3,658	8,198	7,451	9,976
Net investment income	3,726	3,212	2,148	2,258	3,650
Fee and other income	1,084	660	420	391	1,641
Total income	17,353	7,530	10,766	10,100	15,267
Benefits and Expenses					
Paid or credited to policyholders	13,234	4,567	8,978	8,308	11,374
Other	2,521	1,798	1,094	1,135	2,637
Restructuring costs	42	26	–	–	–
Amortization of finite life intangible assets	18	7	–	–	–
Distribution on Capital Trust Securities	31	28	1	–	–
Net operating income before income taxes	1,507	1,104	693	657	1,256
Income taxes	264	270	196	272	450
Net income before non-controlling interests	1,243	834	497	385	806
Non-controlling interests	17	14	22	23	24
Net income before amortization of goodwill	1,226	820	475	362	782
Amortization of goodwill	–	–	–	61	64
Net income	1,226	820	475	301	718
Net income – participating policyholder	107	97	–	18	27
Net income – shareholders	1,119	723	475	283	691
Preferred shareholder dividends	11	11	14	25	37
Net income – common shareholder	\$ 1,108	\$ 712	\$ 461	\$ 258	\$ 654
Earnings per common share	\$ 544.90	\$ 440.70	\$ 376.97	\$ 214.90	\$ 274.95
Book value per common share	\$ 3,958.00	\$ 3,616.00	\$ 1,659.00	\$ 1,527.00	\$ 1,417.00
Dividends to common shareholders – per share regular	\$ 227.87	\$ 199.70	\$ 248.14	\$ 168.40	\$ 140.00
– per share special	\$ –	\$ –	\$ 30.71	\$ –	\$ 31.53

DIRECTORS AND OFFICERS

Board Of Directors

As of December 31, 2004

Robert Gratton ^{3, 4, 5}

Chairman of the Board of the Company
President and Chief Executive Officer,
Power Financial Corporation

Gail S. Asper ¹

Corporate Secretary,
CanWest Global Communications Corporation

James W. Burns, O.C. ^{3, 4}

Director Emeritus,
Power Corporation of Canada

Orest T. Dackow ^{3, 4}

Corporate Director

André Desmarais, O.C. ^{3, 4, 5}

President and Co-Chief Executive Officer,
Power Corporation of Canada
Deputy Chairman,
Power Financial Corporation

Paul Desmarais, Jr. ^{3, 4, 5}

Chairman and Co-Chief Executive Officer,
Power Corporation of Canada
Chairman, Power Financial Corporation

Daniel Johnson ^{2, 3, 5}

Of Counsel to McCarthy Tétrault LLP

Kevin P. Kavanagh, C.M. ^{2, 3}

Corporate Director
Chancellor Emeritus, Brandon University

Peter Kruyt

Vice-President, Power Corporation of Canada

J. Blair MacAulay ⁴

Of Counsel to Fraser Milner Casgrain LLP

The Right Honourable

Donald F. Mazankowski, P.C., O.C. ^{3, 4}

Senior Advisor to
Gowling Lafleur Henderson LLP

William T. McCallum

President and Chief Executive Officer,
Great-West Life & Annuity Insurance
Company

Co-President & Chief Executive Officer,
Great-West Lifeco Inc.

Raymond L. McFeetors ^{3, 4}

President and Chief Executive Officer
of the Company
Co-President and Chief Executive Officer,
Great-West Lifeco Inc.

President and Chief Executive Officer,
London Life Insurance Company

President and Chief Executive Officer,
Canada Life Financial Corporation

President and Chief Executive Officer,
The Canada Life Assurance Company

Randall L. Moffat ^{1, 5}

Corporate Director

Jerry E.A. Nickerson ¹

Chairman of the Board,
H.B. Nickerson & Sons Limited

David A. Nield ^{3, 4}

Corporate Director

R. Jeffrey Orr

President and Chief Executive Officer,
IGM Financial Inc.

Gordon F. Osbaldeston, P.C., C.C. ^{2, 3}

Corporate Director

Michel Plessis-Bélair, F.C.A. ^{1, 3, 4}

Vice-Chairman and Chief Financial Officer,
Power Corporation of Canada
Executive Vice-President and
Chief Financial Officer,
Power Financial Corporation

Guy St-Germain, C.M. ^{1, 3, 4}

President, Placements Laugerma Inc.

Gérard Veilleux, O.C. ¹

Vice-President, Power Corporation of Canada

1 member of the Audit Committee

2 member of the Conduct Review Committee

3 member of the Executive Committee

4 member of the Investment Committee

5 member of the Compensation Committee

Executive Officers

Raymond L. McFeetors

President and Chief Executive Officer

William L. Acton

Executive Vice-President,
Europe & Reinsurance

Denis J. Devos

Executive Vice-President,
Individual Insurance and Investment Products

Allan S. Edwards

Executive Vice-President and Actuary

James R. Grant

Executive Vice-President, Group

D. Allen Loney

Senior Vice-President,
Capital Management

William W. Lovatt

Executive Vice-President and
Chief Financial Officer

Peter G. Munro

Executive Vice-President and
Chief Investment Officer

Ron D. Saul

Senior Vice-President and
Chief Information Officer

Sheila A. Wagar

Senior Vice-President,
General Counsel and Secretary

POLICYHOLDER AND SHAREHOLDER INFORMATION

Head Office

100 Osborne Street North, Winnipeg, Manitoba R3C 3A5

Stock Exchange Listings

Symbol: GWL.PR.L, GWL.PR.O

The Preferred Shares Series L and O are listed on the Toronto Stock Exchange.

Transfer Agent and Registrar

The transfer agent and registrar of Great-West Life is **Computershare Trust Company of Canada**.

In Canada, the common shares and Non-Cumulative First Preferred Shares, Series L and O are transferable at the following location:
6th Floor, 530 8th Avenue S.W., Calgary, Alberta T2P 3S8

Dividends

The Preferred Shares Series L, O – Dividend record dates are usually between the 1st and 4th of January, April, July, and October. Dividends are usually paid the last day of January, April, July, and October.

The Preferred Shares Series Q – Dividend record dates are usually between the 1st and 4th of March, June, September and December. Dividends are usually paid the last day of March, June, September and December.

Financial Information

For financial information about Great-West Life, please contact the Chief Financial Officer at 204-946-7341.

For copies of the Annual or Quarterly Reports, please contact the Secretary's Office at 204-946-8366 or visit our website: www.gwl.ca

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A member of the Power Financial Corporation group of companies.